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ABSTRACT

This unit is designed to investigate the reasons for international trade and the issue of trade protectionism by focusing on the case study of the U.S. trade relationship with Taiwan. The unit begins with a simulation that highlights the concepts of global interdependence, the need for international trade, and the distribution of the world's resources. After the simulation, international trade is brought to a real-world level by looking at the top 10 U.S. trading partners and specifically Taiwan's place among them. Students are assigned to search for products in their homes that were manufactured in Taiwan, and they are asked to speculate what products the U.S. exports to Taiwan. This information leads to a discussion of the principles upon which international trade is based. These basic concepts of absolute advantage, comparative advantage, and specialization are helpful in understanding how international trade in the ideal case can be beneficial to all nations. The next section explores who benefits and who loses in international trade, with an in-depth look at the long-standing economic debate on protectionism. Students are encouraged to think critically about the arguments for and against free trade in an effort to develop their own opinions about trade protectionism. Student opinions become even more crucial in the last section that utilizes the case of U.S.-Taiwan textile trade. Students will be asked to play certain roles before a fictitious congressional committee that is preparing to vote on whether or not to extend the current quotas on Taiwanese textile imports for three more years. Appendices include a list of optional and follow-up activities, discussions of the economic situations of the U.S. and Taiwan textile and apparel industries, a glossary of key terms, and a 7-item bibliography. (AA)

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INTERNATIONAL TRADE AND PROTECTIONISM

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INTERNATIONAL TRADE AND PROTECTIONISM

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The author alone bears responsibility for the views expressed.

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INTERNATIONAL TRADE AND PROTECTIONISM

INTRODUCTION

Rationale

Why international trade? The world economy is interconnected today to an extent unparalleled in history. Many of the things we daily consume, such as coffee, tea, sugar, and bananas, are imported. A typical American household might own a television made in Japan, a radio made in Hong Kong, shoes made in Taiwan, a sweater made in Scotland, a jacket made in Italy, an automobile made in Sweden, sunglasses made in France, and an electric shaver made in The Netherlands. The trading of goods and services between nations affects everyone, especially Americans. The United States is one of the largest and most important trading partners in the world. In 1980, the United States imported $333.9 billion worth of goods and services. In that same year, the United States exported $344.7 billion worth of goods and services. (In order to obtain a sense of how large these amounts are, consider the following example: Suppose you spend $1 million a day, it would take nearly 1,000 years to spend the amount the U.S. imports or exports in one year!)

Not only is international trade becoming increasingly important in our lives, but the issues surrounding the debate of free trade vs. protectionism are increasingly vocalized. Threats of protectionist measures against some of our trading partners often can be seen in the newspaper. Since international trade and costs of such trade are becoming increasingly important in our lives, economic decisions based on knowledge and rational thinking can assist us in acquiring the greatest benefit from our economic system. One day, we may be faced individually with some important decisions relating to job security, the demand for a product which is limited in its trade by an import quota, or the cost of government increasing trade protectionism. These are all issues which will be discussed within this unit.

Why Taiwan? While international trade is becoming increasingly important in our lives as it binds our world together, Asia's role in the world market is becoming more prominent. During the past twenty years, all but seven years have witnessed Asia as leading the rest of the world in economic growth, except for major oil-exporting nations. The Asia-Pacific region is not only the largest single overseas market for U.S. agricultural exports and a large purchaser of U.S. manufactured goods, but it also supplies raw materials essential to American manufacturers. From 1980-84, seven of America's top twenty trading partners were in this region. One of the Asian countries whose expanding role poses a formidable economic challenge to the United States is Taiwan. Taiwan's economic role is enlarging worldwide as it has joined the ranks of the newly-industrialized nations, which are primarily Asian. Taiwan's trade relationship with the U.S. has become more extensive; in 1983, Taiwan was the U.S.'s sixth largest trading partner. World trade between Taiwan and the San Francisco Bay Area is also high; in 1984 Taiwan was the Bay Area's third largest trading partner. During 1982, imports to the Bay Area from Taiwan were valued at over $600 million. Exports to Taiwan from the Bay

Area during the same period were valued at nearly $500 million. Taiwan is California's third largest foreign trading partner.

Since the U.S.-Taiwan trade relationship is a large one and since Taiwan represents the class of newly-industrialized nations, Taiwan serves as a useful case study through which we can examine such important issues as international trade, trade protectionism, and interdependence.

Overview

This unit is designed to investigate the reasons for international trade and the issue of trade protectionism by focusing on the case study of the United States's trade relationship with Taiwan. The unit begins with a simulation which highlights the concepts of global interdependence, the need for international trade, and the distribution of the world's resources. After the simulation, international trade is brought to a real-world level by looking at the U.S.'s top ten trading partners and specifically Taiwan's place among them. Students are assigned to search for products in their homes which were manufactured in Taiwan, and they are asked to speculate what products the U.S. exports to Taiwan. This information leads into a discussion of the principles upon which international trade is based. These basic concepts of absolute advantage, comparative advantage, and specialization are helpful in understanding how international trade in the ideal case can be beneficial to all nations. The next section explores who benefits and who loses in international trade, with an in-depth look at the long-standing economic debate on protectionism. Students are encouraged to think critically about the arguments for and against free trade in an effort to develop their own opinions about trade protectionism. Student opinions will become even more crucial in the last section which utilizes the case of U.S.-Taiwan textile trade. Students will be asked to play certain roles before a fictitious congressional committee which is preparing to vote on whether or not to extend the current quotas on Taiwanese textile imports for three more years.

Appendices include a list of optional follow-up activities, discussions of the economic situations of the U.S. and Taiwan textile and apparel industries, a glossary of key terms, and a bibliography. The teacher may refer to these as necessary.

Objectives

Students will:

- gain a vocabulary useful when discussing international trade and trade in general
- articulate why international trade exists
- identify the dimensions of the importance of international trade in their everyday life

- o reflect constructively on values and feelings regarding trade protectionism, and orally defend and criticize them
- o be able to apply their knowledge to other cases

Suggested Sequence and Schedule

Although this unit is designed for 11th and 12th grade high school students, major portions are adaptable for grade levels 7-12. The unit is flexible; it can be used in its entirety, or individual sections and activities may be incorporated into courses dealing with economics, social studies, global studies, U.S. history, world problems, Far East history, international relations, business studies, government, current events, and policy-making. In addition, other countries or cases easily can be substituted. The following are activity highlights:

Day 1	Day 2
(Day before: set up for Living in a Global Age simulation) Living in a Global Age simulation (Handouts #1-3) Beginning of Living in a Global Global Age debriefing Handout #4: Data Collection Sheet	Completion of Living in a Global Age debriefing Review Handout #4 Introduction to international trade and U.S.-Taiwan trade Handout #5: Background on Taiwan Handout #6: Map of Taiwan
Day 3	**Day 4**
Reasons for international trade Rightoria and Leftland Absolute advantage, comparative advantage, and specialization Film or slides on Taiwan (optional) Handout #7: What Is International Trade (optional) Handout #8: Concepts of International Trade	Review concepts of international trade Winners and losers in international trade Reasons pro free trade Reasons pro protectionism Analysis of arguments Barriers to trade Handout #9: "Being Bullish on Buying American" Handout #10: Concepts of the Arguments Pro and Con Free Trade and Barriers to Trade

Day 5	Day 6
Review of trade arguments Review of Taiwan Introduction to textiles Preparation for role-play Handouts #11-16: Letters from groups in the U.S. and Taiwan arguing pro and con free trade	Role-play on textile case Discussion of arguments pro and con free trade Teacher observations

SECTION I: INTERNATIONAL TRADE
Part I: Living in a Global Age
Teacher Lesson Plan

Introduction

This simulation can be used to introduce international trade and global economics to students above 7th grade through a group task involving assembling dismantled flashlights. This simulation can be used to introduce other topics such as energy shortages, international crises, relationships between rich and poor nations, foreign diplomacy, interdependence, cross-cultural communication, and global systems.

This simulation creates a miniature three-nation world that typifies and at the same time simplifies the interaction and conflict which take place among three kinds of nations today: (1) energy-rich/low technological level; (2) high technological level/energy poor, and (3) some energy resources/highly industrialized.

This simulation, like any other simulation, is designed to provide students with an interesting opportunity to learn experientially. The activity simulates genuine feelings in the global marketplace, although no existing culture is actually being simulated.

Objectives

Students will:

- o experience the need for cooperative behaviors and effective communication skills when trying to solve a simple problem, namely to negotiate among groups for the parts necessary to assemble a working flashlight
- o describe analogies between their experience in the simulation and the relations between nations of the world
- o describe how group goals, values and perceptions affect a group's ability to communicate with another group
- o express how it feels to play roles of citizen, leader, diplomat, or monitor in a simulated, three-nation world

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(Many persons contributed to the final version of this simulation unit. Robert E. Freeman and Andrea B. Karls are responsible for the genesis of the simulation which is described in Intercom #79 under the title, "Let There Be Light." Nancy Beckman and Bob Huey of The Japan Project designed the current simulation activity. Robin Riddle of The China Project and Nancy Sato of The Japan Project completed the revisions and debriefing sections.)

- describe their own behavior from their own perspective and from the perspective of other groups

- understand the need for international trade

Materials

- 3 identical two-battery flashlights (in working order), including the batteries and bulbs

  (Note: As long as all the required parts are included, you can simply buy a flashlight at a supermarket. The required parts for one flashlight are two batteries, one bulb, one case, one reflector, one top, one connector ring, and one lens. If you can't find a flashlight in a nearby store, an Eveready "Commander Magnet Flashlight" can be ordered from Union Carbide, One California Street, San Francisco, CA 94111, using reorder #5951BP.)

- 12 cards marked "50," each representing 50 units of money

- 3 large manila mailing envelopes labeled "A," "B," and "C"

- 3 copies of Handout #1, Rules and Objectives

- 3 copies of Handout #2, Transaction Record

- 3 copies of Handout #3, Student Monitor Role Sheet

- one copy per student of Handout #4, Data Collection Sheet

- 2 nametags labeled "Diplomat A," 2 nametags labeled "Diplomat B," 2 nametags labeled "Diplomat C," and 3 nametags labeled "Monitor"

- blackboard and chalk, or newsprint and marker pens

- signs for negotiating sites labeled in large letters "A/B," "B/C," "A/C"

Preparation: Day Before Simulation Begins (10 minutes)

The teacher should prepare the following items before the simulation, outside of class.

1. Disassemble flashlights into component parts. Sort the parts into each large manila envelope as follows:

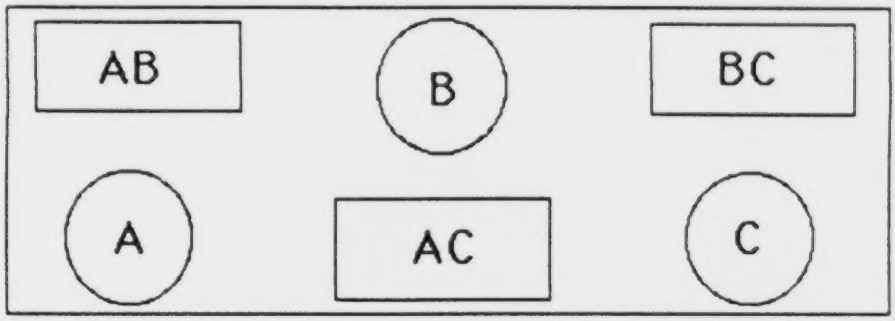
A	B	C
1 battery	3 bulbs	5 batteries
2 cases	1 case	1 reflector
2 reflectors	2 lenses	1 lens

1 top	1 connector ring	2 tops
2 connector rings	2 nametags marked "Diplomat B"	4 50-unit bills
2 nametags marked "Diplomat A"	4 50-unit bills	2 nametags marked "Diplomat C"
4 50-unit bills	1 copy Handout #1	1 copy Handout #1
1 copy Handout #1	1 copy Handout #2	1 copy Handout #2
1 copy Handout #2		

2. Identify where each nation's citizens can arrange their seats into a close-knit group as far from the other nations as possible but in the same room.

   Decide where to locate three neutral negotiating areas which must be away from each of the areas occupied by citizens.

   See the following diagram for an example (= nations, ▭ = negotiating sites):



Procedures

Motivation and Setting the Stage: Day Before Simulation Begins (10 minutes)

1. Explain that the next day the students will participate in a simulation. You may wish to tell students what a simulation is. (See SECTION I, Part I, Introduction, page 5.)

2. Stimulate student interest in playing the simulation. Ask students: Why do you think trade exists between nations? What do you think would happen if all international trade stopped?

   From the answers you can acknowledge that these questions don't have simple answers. Tell students they will have a chance to participate in an activity that is similar to the world, where answers to these questions are worked out every day by business and government. In the activity they'll be diplomats, leaders, and citizens of countries that are trying to meet their various societal needs.

3. Select three student monitors who will each oversee one of the three negotiating sites. Tell them that their task is to enforce the rules and time limits and to serve as neutral observers of the negotiating between nations.

4. Divide the remaining students into the following roles.

   Each of the three nations should have:

   - 6 diplomats, who meet with other nations' diplomats to negotiate transactions
   - 1 president, who leads the group in making decisions
   - 1 technician, who builds the working flashlight
   - 1 recorder, who records supplies and transactions

   If there are fewer than 30 students in your class, reduce the number of diplomats. However, there must be at least two diplomats per group. If there are more than 30 students, extra students should serve as the assistant president, assistant technician, or assistant recorder.

5. Tell the students they will receive instructions on the activity the following day.

Explaining the Simulation Rules: Day 1 (10 minutes)

1. Ask students to assemble into their three nations (in the teacher-designated areas). While students are moving their chairs, put up the signs labeling the three negotiating areas. Assign one student monitor to each negotiating area. Tell the student monitors that you'll provide them with role sheets after you have explained all the instructions.

2. Announce the objective of the simulation with these words: "The objective of the activity is for each nation to get a complete working flashlight." The word "activity" is used instead of "game" so that competition is not implied. If students ask if it is important to complete the flashlight first, just repeat the objective as quoted above.

3. Tell the new nations that each will receive a packet of flashlight parts, play money and instructions, but will need to trade with other nations to get a complete working flashlight. If students ask, you may wish to tell them that there are enough flashlight parts collectively provided to complete three working flashlights, but that no individual group has all the right parts from the beginning.

4. Explain that there are rules which nations must follow as they trade for needed parts (you may want to abbreviate these on the blackboard):

   a. Groups can only communicate with each other through their diplomatic representatives.

      1) For each negotiating round, each nation has two foreign diplomats, one to negotiate with each of the other two nations. Diplomats should wear the nametags provided when it is their turn to negotiate.
      2) Diplomats must learn the desires and policies of their nations and carry them out as best they can.

3) New diplomats are appointed after the completion of every set of two negotiating rounds. It is the responsibility of the six diplomats in each nation to decide which two diplomats are first (negotiating rounds #1 and #2), second (negotiating rounds #3 and #4), and third (negotiating rounds #5 and #6). (Hopefully there will be at least five rounds of transactions so that everyone assigned to be a diplomat actually has an opportunity to be one. If not, it doesn't matter because the non-negotiating diplomats serve as citizens.)

b. Diplomats must meet in the negotiating areas. They are labeled A/B, B/C, A/C to indicate where pairs of diplomats are to meet.

1) There will be special time periods of one minute each when diplomats can meet. The teacher will promptly announce when these periods begin and end.
2) At each diplomatic meeting only one transaction can be made. A transaction includes one exchange of parts, although the number of parts being exchanged is unlimited. (The teacher may wish to demonstrate a legal transaction, for example, one pencil for two paperclips.) During a one-minute negotiation period, diplomats may not return to their own nation, even to get more parts or ask for advice.
3) Each neutral zone will be monitored by one student who knows the rules thoroughly and will enforce the rules.

c. After each negotiating period, each nation will have time (three or four minutes) to assess its situation and plan for the next negotiation. During this time, the recorder should make additions to the transaction record (Handout #2).

5. If students have questions after you've explained the rules, tell them to discuss them within their nation first. If a question remains unanswered and all members agree that the question should be asked, then the teacher may be addressed. (This will help students begin to function as a group.) Mention that basic rules are on the instruction sheet they are about to receive.

Playing the Simulation (15 minutes)

1. Distribute the packets of flashlight parts, one to each group as designated: A, B, and C. Announce that each nation now has five minutes to read the instructions and make a plan for what its diplomats will do in the first negotiating period.

2. While nations are discussing their plans, meet with the three student monitors. Provide them with their role sheet (Handout #3) and discuss their duties. Emphasize their role as observers rather than police. Therefore, if they see an infraction, they should remind students of the rules. If, however, their attempts fail, they should ask the teacher for assistance. If students continue to break the rules, just ignore it as it will make good debriefing material in the end. Nonetheless, one rule should be adhered to as strictly as possible: the one-minute negotiating

time limit. Ask if they have further questions. Provide them with name-tags. Assign the monitors to a particular negotiating area.

3. Announce the first negotiating period and help diplomats find their designated negotiating neutral zones: A/B, B/C, and A/C.

4. Once the activity has started, try not to answer any more questions other than by saying that most information needed is available among the students. If students need technical information about how to put the flashlight together, tell them they must negotiate or trade with another group for this technological information.

5. Your only duties during the activity are to announce the beginning and the end of the one-minute negotiating round and to help student monitors see that the rules are followed.

6. Stop the activity when all three nations have assembled working flashlights. (Check to make sure that the working flashlight contains all the required parts, especially the plastic connector ring.) You may prefer to set a time limit for the activity. Usually the simulation requires approximately five negotiating rounds before at least one nation, and probably all nations, have completed their flashlights.

Cautions While Playing the Simulation

1. Don't tell the students that they must compete. Let them choose that mode if they wish. The activity makes it difficult for a cooperative mode, but so does the present international system. Furthermore, the goal of the simulation is to get a working flashlight, not necessarily to be the first nation to have a working flashlight.

2. According to the rules, diplomats must take the parts they want to negotiate with them to their neutral negotiating areas. You may wish to tell the student monitors to be lenient on enforcing this rule.

Discussion and Debriefing

The discussion and debriefing account for the principal learnings from the simulation. Try to get through the Individual Reactions and Group Assessments sections below during the same class period in which the activity is played (Day 1). At the end of Day 1, give students Handout #4, which will be essential in making a link between the simulation and real-world trade. On the following day (Day 2), approximately 20 minutes can be used profitably to pursue some of the broader questions (Other Questions and Analogies to the World sections). (Then U.S.-Taiwan trade and the reasons for international trade will be discussed thoroughly. See SECTION I, Part II.) During the debriefing and discussion, record responses to the questions on the blackboard or on butcher paper so that generalizations can be made from time to time during the debriefing and responses can be referred to when discussing analogies to the real world.

See the optional follow-up activities in Appendix A for further activity ideas, once the discussion and debriefing are completed.

Individual Reactions (10 minutes)

1. How are you feeling about your participation in the activity? (For example, sad, angry, powerful, happy, frustrated, excited, competitive, confused, surprised, cheated, nationalistic, suspicious)

2. What did you do that made you feel that way? (For example, argued, nothing, got my way, lied, communicated honestly, led my nation, made a good trade)

3. What did others do to make you feel that way? (For example, lied, made cooperative gestures, made trades for needed items, withheld information, were aggressive)

4. Ask diplomats, monitors, and those citizens who stayed at home what was the most difficult, interesting, or frustrating aspect of their job? Did they feel free and in control of themselves?

   Make two headings on the blackboard or on butcher paper to record responses. List the feeling first, then some of the behaviors that caused those feelings. For example:

Feeling	Behaviors
Powerful	Got what I wanted
Frustrated	People ignored me
Confused	Didn't learn the rules
Disappointed	Couldn't get our flashlight to work
Angry	Someone yelled at me
Bored	Just sat and watched
Abused	Diplomats of my country lied

Group Assessments (10 minutes)

1. Ask students in each nation and the student monitors to describe the people in the other two nations. For example, ask nations B and C what they thought about nation A, then ask A and C what they thought about B, etc. Also ask students why they hold such opinions of the other nations. When the diplomat role was filled by different people, did your opinion of the nation change also? Why do you think the nations were as you described them to be?

   You may allow students to refer to Handout #2 to check the names of diplomats, transaction history, and part distribution.

2. Ask each nation if they agree with the description they have just been given. Why or why not? Ask each nation to describe themselves (i.e., their policies, values, and strategies).

   Hopefully there will be contrasting opinions about the same nation. You should explore how all opinions may be right or wrong in varying degrees depending on one's perspective.

Here's a sample chart which may be useful in placing the information on the blackboard or on butcher paper:

	Of A	Of B	Of C
A's view			
B's view			
C's view			

3. At the end of Day 1, be sure to give each student Handout #4. Students are to think of products which their families own that are made in another country. The idea is to get a diversity of products from a variety of countries, particularly Taiwan.

Other Questions: Day 1 or 2 (5 minutes)

1. What could your nation have done:
   a. to change the impression others had of you?
   b. to get a working flashlight more rapidly?
   c. to improve communication and decision-making in your own nation?

   In each of the above situations, what would be sacrificed in the process?

2. Was there anything about the distribution of parts which gave one nation an advantage or disadvantage in the activity? What? (You may wish to list the distribution of parts on the blackboard.)

   You may want to relate this question about resources to the characteristics certain nations exhibited in the activity. For example, nation A may have been "stubborn" about trading, but that may have been because they only had one extra part to offer.

3. What do you think your groups would have done if you knew that the trading would be limited to four transactions?

4. If some of the students thought that their nation was dishonest, what did they do about it? Did they care?

5. What did student monitors observe about communication between diplomats? Did communication break down? How did they know? What may have been the cause? Did their perceptions of the countries change when the diplomats changed?

Analogies to the World: Day 2 (10-15 minutes)

1. What is there about the activity which resembles the situation of nations in the world today? What is different? Write these answers on the blackboard. Be sure to consider the following items: the role of money (that is, money is only given a role if two or more parties agree that it has value), each nation's feelings about trading, the distribution of world resources, the attitudes or perceptions which people expressed, the importance of trade, international interdependence, the influence of ideology and values on perception, whether or not every nation was successful in obtaining a flashlight, the length of the activity, and intra-group and inter-group communication.

2. What word can be used to describe the relationship between nations which depend on each other to meet their needs? Answer: interdependence. Ask for examples of interdependence in the simulation and in the world. What kinds of skills and attitudes do we need to live in today's complex and interdependent world?

3. In an interdependent world, cooperation may be difficult but necessary. Cooperation occurs in many forms. Referring to the simulation, ask why some groups got along smoothly, while others had trouble communicating and trading. If cooperation was required, what aspects hindered it? What does this represent about the behavior of nations? How can we relate this to current conflicts between nations today? What "rules" govern the behavior of nations as they interact with each other in the real world?

   Are there other reasons for trading besides just wanting another country's part? What factors influence the trading of "parts" and resources in the world? (For example, history of war or conflict, government policy, ideology, prejudice, miscommunication, resource distribution, human rights, religion, ethics, values, good will, language, culture, military policy, and alliances)

4. In what ways does this simulation resemble the current world situation? What countries in today's world are similar to nations A, B, and C? In order to consider what kind of nations A, B, and C represent, ask these questions: What do you think the batteries symbolize? (Answer: energy) What do you think the bulbs symbolize? (Answer: technology) What do you think the cases symbolize? (Answer: heavy industry) Although this simulation was not designed with specific countries in mind — and therefore there are no right answers to these questions — nation A (some energy resources/highly industrialized) might approximate the United States, nation B (high technological level/energy poor) might approximate Taiwan, and nation C (energy rich/low technological level) might approximate Saudi Arabia.

5. Upon what do we base our perceptions of other countries? Is it difficult for our perceptions to change? On what basis might we change our perceptions? (For example, new information, new government policies, changing economic needs, and direct experience in another country)

6. What do you think this simulation has to do with U.S.-Taiwan trade? Does Taiwan approximate a country similar to A, B, or C?

7. What did you learn about the international scene (particularly trade or other kinds of relationships among nations)? What did you learn about yourself or American society?

Points to be Brought Out in the Debriefing Discussion

1. There is a need to cooperate both within and outside of one's own group because we are living in a complex, interdependent world. Interaction or cooperation may not be the same as respecting another nation or liking its people.

2. When we interact with other nations, sometimes our values and goals coincide, while other times they conflict. Nations respond to this situation in a variety of ways, partially depending on their relative positions in the world vis a vis those nations with whom they interact.

3. Conflicting values and goals both result in and are shaped by misperceptions and stereotypes of others. Misperceptions and stereotypes are grounded in our emotional reactions to situations. In the simulation, we may have considered the diplomat to be the ultimate representative of his country's philosophy and ideology; however, it is not fair to believe we understand a country through interaction with only one of its citizens. Consider the role the news media plays in shaping our perceptions of countries or diplomats.

4. Communication between cultures is difficult. Have students reflect on the fact that though they were all speaking English (still the international language of trade) and share many American values and common experiences, communication/interaction broke down. (Have students speculate on why some transactions were successful, while other transactions could not be completed.) Our own country's philosophy or ideology affects our perceptions of other countries. Explore how this could lead to potential miscommunication.

5. Human beings often project feelings about themselves onto the behavior of others. This often blinds us to seeing how others perceive us. For example, group A feels that group B is greedy by not sharing or selling a part to them. Group A never stops to ask itself if its use of a part would exclude group B's use of it.

6. The actions of students during the simulation do not necessarily represent their character or actions outside of the simulation.

7. The students were never told to compete and yet competition is often seen as the only way to complete the flashlight. This may be so because American culture encourages competition so we all assume that in this simulation we must compete with the other groups.

8. The simulation is an artificial simplication of a more complex reality. Therefore, since the activity can't completely or precisely correlate with reality, the discussion is fairly speculative and based upon generalizations.

LIVING IN A GLOBAL AGE
Rules and Objectives

Object of the game for your nation: to get a working flashlight. A working flashlight must be put together correctly and contain the following parts:

2 batteries
1 case
1 top
1 reflector
1 bulb
1 plastic lens
1 plastic connector ring (Note: international law requires a connector ring for safety purposes)

Make sure that your nation has people filling the following roles:

6 diplomatic representatives - meet with other nations' diplomats to negotiate transactions
1 president - leads the nation in making decisions
1 recorder - records supplies and transactions on Handout #2
1 technician - assembles the working flashlight when parts are available

If your nation has less than nine citizens, reduce the number of diplomats. If you have more than nine, have citizens serve as the assistant president, assistant recorder, or assistant technician.

Diplomatic representatives will change after every two negotiating periods, so you must select which two diplomats will represent your country during the first two negotiating rounds, which two diplomats for the second two negotiating rounds, and which two diplomats for the third two negotiating rounds. The recorder should write the diplomats' names on the transaction record, Handout #2. (Since the activity may last longer than six negotiating rounds, diplomats should just repeat their order.)

Rules for meetings between diplomatic representatives of different nations:

1. Representatives may not go directly to other groups, but must meet with other representatives in a neutral zone only during official negotiating periods.

2. Representatives' negotiating periods are:
   a. limited to one minute, and
   b. limited to one transaction (that is, only one exchange of parts or money may occur)

3. Representatives cannot take their nation's packet outside of the group. Also, once a negotiating round begins, representatives cannot return to their own nations, even to get parts or ask for advice.

Suggestion: Your representatives' first mission might be to find out what parts other nations have.

Handout #2

TRANSACTION RECORD
Nation A, B, or C (circle one)

Extra parts we have: (bargaining tools)		Parts we need:
Cross off/add as traded and received		Cross off/add as traded and received
Name of our Diplomats	Round	What we traded: Group ____ Group ____
1) _____ Negotiated with Group ____	1	
2) _____ Negotiated with Group ____	2	
1) _____ Negotiated with Group ____	3	
2) _____ Negotiated with Group ____	4	
1) _____ Negotiated with Group ____	5	
2) _____ Negotiated with Group ____	6	
1) _____ Negotiated with Group ____	7	
2) _____ Negotiated with Group ____	8	

Use the back of this sheet if more space is needed.

STUDENT MONITOR ROLE SHEET

Student monitors must enforce all the negotiating rules in each neutral negotiating area. The following is a summary of these rules:

1. Groups can only communicate with each other through their diplomatic representatives. New diplomats are appointed after the completion of every set of two negotiating rounds.

2. Diplomats of other countries can only meet with each other in the neutral negotiating areas. Their negotiating periods are limited to one minute. These periods are regulated by the teacher.

3. Only one transaction may occur during each negotiating round. A transaction is defined as one exchange of parts or money, although the quantity of parts and money is not limited.

In addition to enforcing these rules, you should also pay attention to the following items:

1. How well do the diplomats communicate with each other? Do they seem to be honest or dishonest? What makes you think so?

2. Do you perceive each country differently as its diplomatic representatives change? If so, why?

SECTION I: INTERNATIONAL TRADE
Part II: Why International Trade?
Teacher Background Information

Important International Trade Concepts

Introduction

International trade refers to the exchange of goods, services, and information between nations. In this unit, we are only concerned with the exchanging of goods. For our purposes, international trade is the buying and selling of goods between nations. A good is any kind of product. Goods which enter the U.S. market from another country are called imports, while goods the U.S. sells to another country are called exports. A U.S. export is another country's import.

Principles of Trade

Of course goods just don't move freely from country to country. There are several principles governing the operation of international trade. These principles are expressed under ideal conditions, so they are only approximated in the real world. The two most important principles are the principle of absolute advantage and the principle of comparative advantage, which are discussed below.

#1: Principle of Absolute Advantage. This basic principle, first stated by Adam Smith in 1776, refers to the case in which a country holds an absolute superiority in the production of some good. Superiority is defined in terms of greater efficiency in production. This situation may be the result of climate, availability of natural resources, labor conditions, capital conditions, availability of technology and entrepreneurship, management skill, quality of land, and political conditions. Thus the advantage is in terms of cost or availability.

An example of this principle in action can be seen in trade between Brazil and the United States. Due to its climate and excellent terrain, Brazil has an absolute advantage over the U.S. in coffee production. Coffee could be grown in the continental U.S., but the cost would be very high. Conversely, the U.S. has an absolute advantage over Brazil in the manufacture of atomic power plants because of the high level of available technology and trained personnel in the U.S. Based on their absolute advantages, trade between the two countries continues. Trade is thus advantageous since the U.S. gains coffee and Brazil gains atomic power plants.

#2: Principle of Comparative Advantage. This more complicated principle was first described by the English economist David Ricardo in the 19th century. According to his theory, each country, given conditions of free trade, will specialize in the production of goods it can produce relatively or comparatively cheaply.

An easy way to illustrate comparative advantage (although not related to international trade) is to think of a salesman who hires a typist even though the salesman can type faster than the typist. He does this because his time is limited; his margin of efficiency over the typist is greater in the sales area than in the typing area.

Let us also consider an extended fictional example to illustrate the concept of comparative advantage numerically. We must assume that there are only two countries in the world, the United States and Taiwan, and only two products in the world, tennis shoes and jeans. In our simple world of two nations, there is perfect competition, which is essential to make price equal cost and guarantee efficient operation of firms. The following chart indicates the amount of labor time required to produce each product in each country:

Labor Costs of Production in Hours:

	Tennis Shoes (per pair)	Jeans (per pair)
United States	80	90
Taiwan	120	100

Obviously the United States has the absolute advantage over Taiwan in both products since U.S. products are "cheaper" in terms of labor hours. (The reason might be more advanced machinery.) Nonetheless, profitable trade may open up between the two countries as a result of comparative advantages.

In Taiwan, the cost of production ratio of tennis shoes to jeans is 120/100 labor hours (refer to above table). So tennis shoes are more "expensive" than jeans in Taiwan in terms of production hours by a ratio of 120:100. A pair of tennis shoes in Taiwan could be used to buy 1.2 pairs of jeans. (Or 120 pairs of tennis shoes could be traded for only 100 pairs of jeans.) In the United States, the cost ratio of tennis shoes to jeans is 80/90. So tennis shoes are "cheaper" than jeans in the U.S. So a pair of tennis shoes in the U.S. could be exchanged for 8/9 of a pair of jeans. (Or 80 pairs of tennis shoes could be traded for 90 pairs of jeans.)

If trade takes place between the two countries we can see comparative advantage in action. If merchants in Taipei, Taiwan want to trade their jeans for tennis shoes, they find that they can get more tennis shoes by trading in the United States than in Taiwan. One pair of Taiwan jeans traded in Taiwan would acquire only 10/12 of a pair of tennis shoes, while that same pair of Taiwan jeans traded in the U.S. would bring 9/8 of a pair of tennis shoes at the price in the U.S. Similarly, if merchants in San Francisco want to trade their tennis shoes for jeans, they find that they can get more in Taiwan. One pair of U.S. tennis shoes originally acquired 8/9 of a pair of jeans when traded in the U.S., but now it gets 12/10 of a pair of jeans when traded in Taiwan at the price in Taiwan. Therefore, profitable trade can take place on the basis of comparative advantage.

However, nations do not always act in concert with these principles. Nations, like individuals, have varied and complex motivations. For example, a country may choose to emphasize production of armaments for nationalistic reasons which override a lack of advantage in such production. Another

example can be derived by looking at the information presented in the above paragraph. Obviously manufacturers of tennis shoes in Taiwan and U.S. manufacturers of jeans will not be pleased with the trade that takes place on the basis of comparative advantage. Both of these groups will be hurt by foreign competition. This great dilemma of free trade will be discussed in SECTION II.

Specialization

Specialization is defined as distinguishing between the functions of a productive resource (either land, labor, or capital), usually labor, in order to concentrate on a single activity or prodution operation. For example, on an assembly line, each worker is in charge of a specialized activity in the making of a whole product. Specialization is an important concept in international trade because nations, assuming the ideal conditions of free trade and self-governance, often specialize in the production of goods to which their resources are most suited to produce. (Specialization can be based upon absolute advantage or comparative advantage.) Taiwan, for example, has a relative abundance of labor (that is, relative within Taiwan), so they specialize in the production of goods which are labor-intensive (that is, requires more labor inputs relative to the amount of capital inputs), such as textiles. By specializing, countries can maximize the value of their produced goods. Specialization of production demands that nations engage in trade in order to sell their surplus output and obtain other nations' products.

There are two degrees of specialization: complete and limited. In only a few cases is specialization complete. Between the U.S. and Colombia, there is complete specialization in coffee and airplanes. The U.S. produces no coffee and Colombia manufactures no planes. Most cases of specialization, however, are limited. Limited specialization is due to the fact that as the quantity of produced output increases, average production costs rise. For example, Taiwan can produce some electrical equipment that is competitive with that of the U.S. However, because of its limited supplies of skilled labor and capital equipment, Taiwan cannot increase the production of electrical equipment sufficiently to satisfy all of its domestic needs without running into higher production costs.

Some economists argue that specialization is essential for economic progress. A nation specializes in the production of goods in which they are most efficient and trades for those goods they are less capable of producing. Due to specialization and trade, scarce resources are used with maximum efficiency.

However, not all economists agree that specialization is essential. A nation concerned with achieving relative self-reliance (if this is possible in an interdependent world) may choose to focus production on areas in which they are not efficient.

Specific Information on U.S.-Taiwan Trade

These principles of absolute and comparative advantage will be helpful to both the student and the teacher when looking at the case of U.S.-Taiwan

trade. The following information summarizes some important elements in that trade.

Level of Trade

Levels of U.S.-Taiwan trade have been increasing since such trade officially began in 1949. In 1986, Taiwan was America's tenth largest export market and its fifth largest source of imports. In 1987, U.S.-Taiwan trade was over $30 billion, making Taiwan the U.S.'s fifth largest overall trading partner. In 1986, the U.S. was Taiwan's largest two-way trading partner, the largest supplier of Taiwan's imports, and the largest purchaser of Taiwan's exports.

U.S.-Taiwan Trade Content

Taiwan's major exports to the U.S. include textiles, electrical equipment, wool products and furniture, metal industry goods and machinery, plastics and agricultural products. Major U.S. exports to Taiwan are agricultural products, chemicals, machinery and electrical items.

Differences in the U.S.'s and Taiwan's Class Status as Nations

The U.S. is described as a developed nation, meaning that it has reached a mature economic state including high industrialization and a high standard of living. U.S. industry has progressed from being labor intensive to being high technology-intensive.

Taiwan is often described as a newly-industrialized country, meaning that it is in a stage between being a relatively poor developing nation and a relatively rich developed nation. It is progressing from labor-intensive to high technology-intensive industries. Taiwan is in the process of switching from the manufacture of export-oriented, light industry consumer products to the production of high technology industrial goods.

(The term newly-industrialized country (NIC) is a relatively recent term used to distinguish between a developed country (DC) and a lesser developed country (LDC).)

SECTION I: INTERNATIONAL TRADE
Part II: Why International Trade?
Teacher Lesson Plan

Objectives

Students will:

- o gain necessary vocabulary to discuss international trade
- o articulate why international trade occurs
- o summarize important trade concepts
- o deduce the importance and complexity of international trade
- o explain why specialization which is based on absolute or comparative advantage may result in greater economic efficiency
- o express the linkage between resource endowments and the products a country imports and exports
- o explain why the principles of absolute or comparative advantage provide reasons for why trade exists

Materials

- one copy per student of Handout #4, Data Collection Sheet
- one copy per student of Handout #5, Background on Taiwan (optional)
- one copy per student of Handout #6, Map of Taiwan (optional)
- one copy per student of Handout #7, What Is International Trade? (optional)
- one copy per student of Handout #8, Concepts of International Trade
- Transparency #1, U.S. and Taiwan Trade Partners
- Transparency #2, U.S. Imports and Exports
- Transparency #3, Taiwan's Imports and Exports
- Transparency #4, Key Economic Indicators for Taiwan

- blackboard and chalk or newsprint and markers

- "Dragon People" (film) or "The Republic of China: A Profile in Slides" (a set of 80 slides/cassette) (optional) These materials may be ordered at no cost from the Information and Communication Division, Coordination Council For North American Affairs, 900 N. Western Avenue, Los Angeles, CA 90029, (213) 461-3665, or at another CCNAA office nearer to your school. These films reflect the particular political orientation of the Taiwanese government. If you do not have access to other films on Taiwan, these CCNAA films can be used with an appropriate disclaimer for students.

Procedures

Introduction to International Trade: Day 2 (15 minutes)

1. Tell students that the Living in a Global Age activity simulated international trade and interdependence, whereas now they will look at international trade in the real world and specifically the case of U.S.-Taiwan trade. It is left up to the teacher to provide a smooth transition from the simulation to the introduction to U.S.-Taiwan trade, depending on how the discussion about the simulation unfolds on Day 2.

2. Ask students the name given to the activity in which goods from different countries are sold and bought. (Answer: International Trade.) Provide students with the formal definitions of international trade, goods, imports, and exports given in **Section I, Part II Teacher Background Information.** You may also provide students with a copy of Appendix D, Glossary of Key Terms.

3. Tell students that before you supply the statistics for how large international trade is and how important international trade is to the United States, you want them to demonstrate these points to themselves. Ask students to share their answers to Parts A and B of Handout #4. You may wish to list their answers on the blackboard or on newsprint in the following manner:

Production Categories	Manufacturing Countries
Clothing	
Plastic Bottles	
Small Electric Appliances	

(Other production categories mentioned by students might include ceramics, furniture, tools, textiles, and specialty

foods.) As these products will be discussed again on Day 3, you may want to keep the newsprint, if using it.

4. Tell students that international trade is important to the United States. You may wish to present some of the reasons for studying international trade listed in Rationale, page one. Without international trade, students would not have the products listed on the blackboard or newsprint in their homes.

Introduction to U.S.-Taiwan Trade: Day 2 (5-10 minutes)

1. Have students guess what countries were the U.S.'s top ten import and export partners of 1986. Do the same for Taiwan. Present Transparency #1.

2. Announce that during the next few days the class will be concerned specifically with United States trade with its number five trade partner, Taiwan. Suggest some of the reasons for studying Taiwan, as provided in Rationale, page one.

3. Return to the list of products on the blackboard or newsprint. Circle the word "Taiwan" each time it appears. Ask students what products they mentioned in Part C of Handout #4. List these products on the blackboard or newsprint if they are not already there.

4. Present Transparencies #2, #3, and #4. Discuss.

Introduction to Taiwan: Day 2 (5-10 min.) and Day 3 (10 min.)

1. If you have not already introduced Taiwan to your class, it may be appropriate to review some of Taiwan's history here. See Appendix E for a bibliography, if you feel your own background knowledge is insufficient. If you wish, supply the class with information given in Handout #5 at the end of Day 2, and then distribute a copy of the handout to each student before class ends to review as homework.

2. You may also wish to point out Taiwan's geographical location to your class by using maps available in your classroom or Handout #6. As an option you could make copies of Handout #6 omitting the names of the countries. Assign the filling in of each country's name on this version of Handout #6 as homework between Day 2 and Day 3.

3. If time permits, the beginning of Day 3 could be spent reviewing Handout #5, Handout #6, and/or other useful information you have discovered about Taiwan, from an encyclopedia for example. As another option, you could show the film or slides listed under Materials, page 22, or other

films you know are available. You should probably reserve these media materials in advance, should you decide to use them. Be sure to preview anything you plan to show.

Reasons for International Trade: Day 3 (10-15 minutes)

1. Tell students that today they will examine the reasons for international trade as well as some important trade concepts.

2. Remind students of the list they generated the previous day (Day 2) from Handout #4. The list consisted of products manufactured in Taiwan, which the students had found in their homes or knew were in the U.S. (If you used newsprint on Day 2 to record student responses, you may wish to show this list again to the class.) Possible products mentioned by students include: textiles, such as carpeting or drapery; apparel, such as shirts, raincoats, or leather garments; shoes; electronic instruments, such as radios or television sets; tools, such as drills; wood products, such as furniture; ceramic products, such as china; and plastic products,such as toys.

   For the following questions, you may want to set up your blackboard or newsprint in this manner to record students' answers.

Taiwan Imports to the U.S.	Why Imported?	U.S. Exports to Taiwan	Why Exported?

3. Ask students why these products were exported to the United States from Taiwan. (Possible reasons: higher quality, lower price, or Taiwan may be the only seller of that product)

4. Ask students why these products are cheaper in costs, better made, or made only in Taiwan. (Possible reasons: Lower labor or other input costs, higher worker productivity, better management, greater availability of natural resources, high level of skill among workers) You may need to help students answer this question, as it is more complex than the other questions.

5. Based upon information presented on Day 2 in Transparency #2 (U.S. Imports) and Transparency #3 (Taiwan Imports), ask students to name several products they think the U.S. exports to Taiwan. (Possible responses: luxury goods, electrical equipment, machine tools, tobacco, food, automobiles, refrigerators.) If this question is difficult for students to answer, ask them what they think the U.S. is particularly good at manufacturing.

6. Ask student why these products were sold to Taiwan. (See possible reasons listed under Question #3.)

7. Ask students why American products may be cheaper in cost, better made, or made only in the United States. (See possible reasons listed under Question #5.)

Concepts of International Trade: Day 3 (15-20 minutes)

1. Tell students they are now going to discuss some economic principles upon which international trade is based. Ask students to think of themselves as divided into two groups: those sitting on the right side of the classroom and those sitting on the left side.

2. Tell students on the right (country "Rightoria"), that their country is the size of Vermont and thus has very little land available for agriculture. The population of Rightoria is large and the most technologically advanced in the world. The population is highly efficient in manufacturing and assembling computers. Rightorian citizens love to eat peaches.

   Then tell students in the left ("Leftland"), that their country is the size of California. It has large areas of land with high quality soil, and has an excellent climate for growing fruit. The population of Leftland is large and relatively unskilled. The citizens of Leftland want to start industrializing and believe that computers will be important in realizing this goal.

   Ask students if they believe trade between the two countries would be beneficial.

You may wish to present the previous resource endowment information on the board in the following manner:

Rightoria	Leftland
size of Vermont	size of California
scarce agricultural land	abundant agricultural land
large population	high quality soil
technologically advanced population	excellent climate for growing fruit
highly efficient in manufacturing and assembling computers	large population
people love to eat peaches	relatively unskilled population
	need computers

3. Explain the concept of absolute advantage, using the example of Rightoria an Leftland, amongst others. Trade between Rightoria and Leftland would benefit both countries: Rightoria would gain peaches, while leftland would gain computers. (See **Section II, Part II Teacher Background Information** for a thorough discussion of this concept.)

4. Then tell students of Rightoria that they are very hard workers and can make one pair of tennis shoes in 80 hours and one pair of jeans in 90 hours. Tell students of Leftland that they are not so productive. They can make one pair of tennis shoes in 120 hours and one pair of jeans in 100 hours. (This information is duplicated within the discussion of comparative advantage in **Section II, Part II Teacher Background Information.**)

Rightoria	Leftland
one pair of tennis shoes: 80 hours	one pair of tennis shoes: 120 hours
one pair of jeans: 90 hours	one pair of jeans: 100 hours

5. Explain the concept of comparative advantage and specifically that trade between Rightoria and Leftland would benefit both countries. Rightoria would sell tennis shoes to Leftland, while Leftland would sell jeans to Rightoria.

6. Ask students if they know the name of the economic principle describing this situation, in which Rightoria manufactures only tennis shoes and Leftland manufactures only jeans. (Answer: specialization.) You should briefly explain this concept.

7. Ask students if they have any questions. If you think that in-class discussion of international trade concepts was not adequate for student understanding, provide students with Handout #7, which is an in-depth survey of these concepts.

Relation to U.S.-Taiwan Trade: Day 3 (2 minutes)

1. Based on the answers they gave to questions on Day 3, ask students to speculate on the product areas in which Taiwan and the United States have comparative and absolute advantages. Why do the U.S. and Taiwan have advantages in these product areas? This activity basically involves brainstorming.

Student Work: Day 3 (3 minutes)

1. Provide students with Handout # 8, which they should take home to read and work on as an assignment due the following class period. You may wish to provide students with Handout #7, which may also serve as a reference in working on Handout #8.

2. Let students know that during the following class period, the class will be discussing the pros and cons of free trade. Ask students to think at home or speak with their parents about the benefits of and problems with international trade. You may wish to assign students to make a list of two benefits of and two problems with international trade for discussion in class on Day 4.

3. See the optional follow-up activities in Appendix A for further activity suggestions.

Handout #4

DATA COLLECTION SHEET

The country in which products were manufactured should be shown on all products. You might have to look on many sides of the products in order to locate the "Made in USA," "Made in Taiwan," or "Made in Japan" insignias. Some products have parts made in various countries. If this is the case, please list all manufacturing countries. (Be careful not to confuse manufacturing with assembling.)

Part A

List as many countries as you can in which products of the following categories found in your home were produced:

1. Clothing: _____

_____

2. Plastic Products: _____

_____

3. Small Electrical Appliances: _____

_____

Part B

Repeat what you did in Part A, only this time name three products of your choice. Again, be sure to list as many manufacturing countries as you can.

1. _____: _____

_____

2. _____: _____

_____

3. _____: _____

_____

Part C

Can you name some products that are made in Taiwan? You can include those that are mentioned above as well as others.

_____ _____

_____ _____

_____ _____

BACKGROUND ON TAIWAN

The island province of Taiwan, governed by the Nationalist Party as the Republic of China, is located one hundred miles off the southeastern coast of the China mainland. Mainland China is governed by the Communist Party as the People's Republic of China. Both governments consider Taiwan as an integral part of China.

The province of Taiwan comprises of a main island and fourteen other islands in the main group and another 64 islands in the Taiwan Straits called the Pescadores. The government of Taiwan also controls Quemoy and Matsu, located just off the shore of Fukien Province, of which they are a part. In 1982, Taiwan, an island of 13,814 square miles, had a population of 18.5 million, one of the world's densest. Its capital and largest city is Taipei, which has a population of over 2 million.

Taiwan's location and name were identified in Chinese history at the end of the Ming dynasty (1368-1644). Large scale Chinese immigration from the mainland to Taiwan began in the 17th century. Early in that century, Dutch and Spanish explorers settled along the costs of Taiwan, known to the Portuguese as Ilha Formosa ("Beautiful Island"). The Dutch occupied the island from 1624-1661, establishing trading stations, churches, and forts, while encouraging Chinese immigration. In 1661, a political refugee from the mainland, Cheng Ch'eng-kung, seized the island from the Dutch. Cheng Ch'eng-kung's grandson surrendered to the Manchus in 1682; Taiwan was made a prefecture of Fukien province in 1684. Migration from the mainland to Taiwan continued, and Taiwan was made a province in 1886. After China's defeat in the first Sino-Japanese war, Taiwan was ceded to Japan in 1895. Following Japan's defeat in World War II, Taiwan was returned to China in 1945. After the Chinese civil war ended with a Communist victory on the mainland, the Nationalist government led by Chiang Kai-shek together with 2 million mainland Chinese found asylum on Taiwan in 1949.

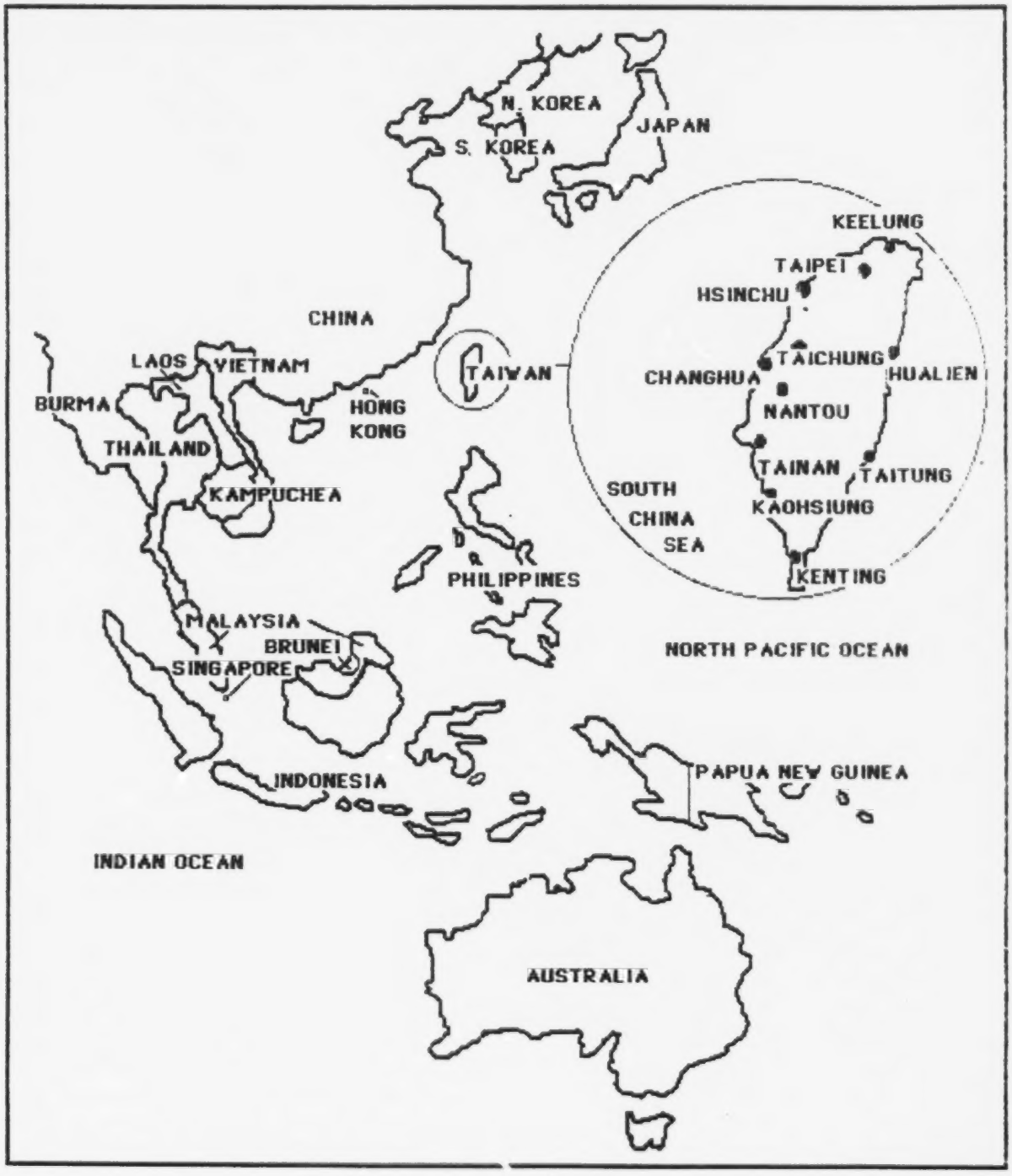
In 1954, the United States signed a mutual defense treaty with Taiwan, after protecting the island from possible takeover by mainland China during the Korean War. By the early 1970s, the majority of nations transferred diplomatic recognition from Taiwan to the People's Republic of China but continued their trade relationships with Taiwan. In 1971, the United Nations voted to unseat Taiwan in favor of the People's Republic of China. During President Nixon's trip to the People's Republic of China in 1972, he acknowledged that Taiwan was a province of China, and Taiwan's future must be decided by Chinese people. In January 1979, the United States severed its official ties with Taiwan and formally recognized the mainland government, but Washington assured the Nationalist government of Taiwan that all commercial, cultural, and other agreements were in force, except for the mutual security treaty which the United Staes ended in December 1979. In April 1979, however, the U.S. Congress passed the Taiwan Relations Act, which provides for Taiwan's security.

The people of Taiwan are comprised of many ethnic groups; the three most prominent are the aborigines, the native Taiwanese, and the Chinese mainland immigrants. About 2 percent of the population are aborigines, descendents of the ancient Miao peoples of southern China and the peoples of southeast Asia. Attempts to integrate the aborigines into the mainstream have not been entirely successful. The latter two population groups account for nearly 98 percent of Taiwan's population. Both the native Taiwanese and Chinese

mainlanders are of Chinese origin; the distinction between them concerns when they arrived in Taiwan. The Chinese whose ancestors arrived on the island before the 20th century, primarily from Fukien and Kwangtung provinces, are considered native Taiwanese. Most native Taiwanese speak a dialect usually described as Amoy. The post-1949 immigrants originated in various parts of China. Mandarin Chinese is the language they typically speak. The post-1949 mainland Chinese immigrants have dominated political bodies since their arrival, causing some tension between native Taiwanese and mainlanders. The process of bringing more Taiwanese (the majority) into positions of power in the Nationalist party (Kuomintang) and in the government is slowly occurring.

As a result of Taiwan's expanding economy, the population has one of Asia's highest per capita incomes. Beginning in 1953, the government's development plans have improved agricultural output and increased the island's industrial capabilities. These development plans were aided financially by the United States. Taiwan is a large food producer, rice being the most important crop. Due to high agricultural production, Taiwan is also able to export crops such as canned vegetables and fruits, sugar, bananas, and tea. Livestock and fishing play a minor role in the economy, although the export of fishery products is considerable. Most of the work force is employed in industry; Taiwan is regarded as a newly-industrializing country. Taiwan's industrialization in the last three decades was phenomenal. In 1952, industrial products accounted for only 8 percent of Taiwan's exports while in 1983 they accounted for more than 90 percent. Principal exports include textiles, electrical products, nonelectrical machinery, and metals. The most important market for Taiwan's exports is the U.S. followed by Japan and Hong Kong. The principal supplier of imports, such as electrical materials, machinery, tools, chemicals, and metals was Japan followed by the United States. Taiwan has trade relations with almost 150 nations, including five communist nations with whom it opened trade in 1980.

MAP OF TAIWAN AND SURROUNDING COUNTRIES



WHAT IS INTERNATIONAL TRADE?

How did your Adidas sweatshirt get from Taiwan, where it was made, to your local clothing store here in America? What about your family's television set or living room rug? How did the banana from South America, that you ate this morning for breakfast, get into the American grocery store where you bought it? How do you think a California grapefruit got to a grocery store in Japan? What about the American computer that is being used in a factory in Europe? How do these things get from one country to another? We can find out by exploring international trade.

In its simplest form, international trade means exchanging goods between nations. (Goods means products.) When a product is exported, it is sent from the country where it is made to another country, where it is sold or else improved upon. When a product is imported, it is brought to the United States from the country in which it was made.

Principles of Trade

Of course goods don't just move freely from county to country. There are several principles upon which international trade generally operates. You were introduced to two of these principles when your class was divided into the nations of Rightoria and Leftland. In order to further analyze the principles of absolute and comparative advantage and the concept of specialization, let's look at some other examples of trade between these two fictional nations.

Principle One: Absolute Advantage

Suppose that Rightoria produces tennis shoes very efficiently, but doesn't have the resources or knowledge to produce jeans efficiently. (Efficiency here is defined as using the fewest resources, which in this case is labor hours or time.) Rightoria needs 20 hours to produce one pair of tennis shoes but 70 hours to produce one pair of jeans.

In contrast, Leftland produces tennis shoes inefficiently but produces jeans very efficiently. Leftland requires 40 hours to produce one pair of tennis shoes and 30 hours to produce one pair of jeans.

	Time to Make One Pair of Tennis Shoes	Time to Make One Pair of Jeans
Rightoria	20 hours	70 hours
Leftland	40 hours	30 hours

The material in this handout was adapted from a handout written by Beth Lubin for "An Introduction to International Trade: Focus on Japan & The United States," The Japan Project, Stanford Program on International and Cross-Cultural Education, Stanford University, 1984.

So Rightoria has an absolute advantage in producing tennis shoes, while Leftland has an absolute advantage in producing jeans. These are the products which each can produce more efficiently on an absolute scale.

Now let us imagine that Rightoria and Leftland each want to have one pair of tennis shoes and one pair of jeans. They decide to make them by working alone. This taks takes Rightoria 90 hours total, while it takes Leftland 70 hours total.

Principle Two: Comparative Advantage

In the last example, Rightoria had an absolute advantage in producing tennis shoes, and Leftland had an absolute advantage in producing jeans. But what if one country had an absolute advantage in both goods? For instance, suppose now that Leftland produces shoes and jeans more efficiently than can Outsideville, as shown below:

	Time to Make One Pair of Tennis Shoes	Time to Make One Pair of Jeans
Leftland	40 hours	30 hours
Outsideville	50 hours	60 hours

From this you can see that, working alone, Outsideville requires 110 hours to make one pair of tennis shoes and one pair of jeans, while Leftland needs only 70 hours to produce the same items.

Although Leftland has the absolute advantage in producing both tennis shoes and jeans, Outsideville has the comparative advantage in producing tennis shoes. This is because Leftland-made tennis shoes take more time to produce than Leftland-made jeans. But the reverse is true in Outsideville. In Outsideville, workers take less time to make a pair of tennis shoes than they take to make a pair of jeans. In Outsideville, tennis shoes are produced more efficiently than jeans; workers there need 50 hours to make one pair of tennis shoes and 60 hours for one pair of jeans.

Specialization

Specialization is an important concept in international trade because nations specialize in the production of goods which they are most suited to produce. Specialization can be based upon both absolute and comparative advantage.

Specialization Based Upon Absolute Advantage

Suppose that the economic advisers for Rightoria and Leftland suggest that the two countries specialize and then trade. Each country would thus specialize in producing only the item in which it had an absolute advantage. Then, the countries could trade. The goal of production and trading would be for each country to end up with one pair of tennis shoes and one pair of jeans. The advisers claim that this will save time for both countries, thus improving overall efficiency.

In order to produce two pairs of tennis shoes, it takes Rightoria 40 hours. To produce two pairs of jeans, it takes Leftland 60 hours. (Refer to chart on the first page of this handout.)

After agreeing that the products will equally exchange, that is, that the price of one pair of tennis shoes is one pair of jeans, the two countries trade.

Were the advisers correct in predicting that the countries would save time?

Time to get one pair of tennis shoes and one pair of jeans:

	Working Alone	With Specialized Trade
Rightoria	90 hours	40 hours
Leftland	70 hours	60 hours

Thus, in terms of efficiency, both Rightoria and Leftland were better off by specializing and trading than by working alone.

Specialization Based Upon Comparative Advantage

In the case of Leftland and Outsideville, specialization can also help the countries be better off, even though Leftland has the absolute advantage in both products. The economic advisers of the two nations explain that each country should specialize in producing the good in which it has the comparative advantage. Outsideville should therefore produce tennis shoes, while Leftland should produce jeans. Since each country wants one pair of tennis shoes and one pair of jeans, each country produces two of its specialized product.

After it is agreed that the price is to be the same for both products, so that one pair of tennis shoes costs one pair of jeans, the two countries trade. Now each country has one pair of jeans and one pair of tennis shoes. Are these two countries better off?

Time to get one pair of tennis shoes and one pair of jeans:

	Working Alone	With Specialized Trade
Leftland	70 hours	60 hours
Outsideville	110 hours	100 hours

From this you can see that both countries are better off by specializing and trading, because they used up fewer resources (time) than they did when working alone to produce the same set of goods. In other words, efficiency was improved.

CONCEPTS OF INTERNATIONAL TRADE

Definitions: Please define these key terms and concepts:

1. absolute advantage
2. comparative advantage
3. specialization
4. goods
5. imports
6. exports
7. international trade

Illustrations of Principles: Please fill in the blanks:

Assume there are only two nations in the world. One country A is surrounded by oceans full of fish. The other country B is located in a semi-tropical area. The citizens of country A can produce either 16 million tons of fish or 8 million tons of wheat per year. The people of country B can produce either 3 million tons of fish or 6 million tons of wheat per year. Let us consider the relative prices of fish and wheat within each country before trading. In country A, _____ tons of fish equal 1 ton of wheat. In country B, 1 ton of fish equals _____tons of wheat. In which country is fish cheaper? _____ In which country is wheat cheaper? _____ Would trade between these two countries be based upon absolute or comparative advantage?

Now assume that country C and country D are the only countries in the world. Country C can produce either 100 tons of steel or 50 tons of corn per month. Country D can produce either 400 tons of steel or 100 tons of corn per month. What should each country specialize in and trade with each other?

Answers to Handout #8
CONCEPTS OF INTERNATIONAL TRADE

Definitions:

See Appendix D, Glossary of Key Terms.

Illustrations:

2 tons of fish
2 tons of wheat
country A
country B
comparative advantage

As the relative prices of steel and corn are as follows:
country C: 1 ton steel = 1/2 ton corn
country D: 1 ton steel = 1/4 ton corn
we can see that steel is cheaper in D and corn is cheaper in C. Country D should export steel to C and C should export corn to D.

TRANSPARENCY #1

TOP U.S. TRADE PARTNERS (1986)

EXPORTS	IMPORTS
1. CANADA	JAPAN
2. JAPAN	CANADA
3. MEXICO	W. GERMANY
4. UNITED KINGDOM	TAIWAN
5. WEST GERMANY	MEXICO
6. NETHERLANDS	UNITED KINGDOM
7. KOREA, REP. OF	HONG KONG
8. FRANCE	KOREA, REP. OF
9. AUSTRALIA	FRANCE
10. TAIWAN (R.O.C.)	ITALY

TAIWAN'S TOP TRADING PARTNERS (1986)

EXPORT	IMPORT
1. U.S.A.	U.S.A.
2. JAPAN	JAPAN
3. HONG KONG	W. GERMANY
4. W. GERMANY	SAUDI ARABIA
5. CANADA	AUSTRALIA
6. UNITED KINGDOM	UNITED KINGDOM
7. SINGAPORE	SINGAPORE

TRANSPARENCY #2

U.S. IMPORTS, 1986

COMMODITY	% OF IMPORTS	VOLUME*
MANUFACTURED GOODS	28.0%	103,559
MACHINERY	23.7%	87,549
TRANSPORTATION	20.0%	74,013
FUELS	10.1%	37,310
OTHER	5.7%	21,294
FOODSTUFFS	5.6%	20,803
CHEMICALS	4.1%	15,001
CRUDE MATERIALS (INEDIBLE, EXCEPT FUELS)	2.8%	10,432
	TOTAL VOLUME	369,961

U.S. EXPORTS, 1986

COMMODITY	% OF EXPORTS	VOLUME*
MACHINERY	29.3%	60,397
TRANSPORT	16.9%	34,893
OTHER	14.0%	28,949
CHEMICAL	11.0%	22,766
RAW MATERIALS	8.4%	17,324
FOODSTUFFS	8.4%	17,303
MANUFACTURED GOODS	8.1%	16,629
FUELS	3.9%	8,115
	TOTAL VOLUME	206,376

* VOLUME IN MILLIONS OF U.S. dollars
Taken from The 1988 World Almanac

TRANSPARENCY #3

TAIWAN IMPORTS, 1986

COMMODITY	% OF IMPORTS	VOLUME*
MACHINERY	27.8%	6,726
MINERALS	12.1%	2,936
RAW MATERIALS (METALS)	11.0%	2,668
OTHER TRANSACTIONS	10.5%	2,535
AGRICULTURE & FORESTRY PRODUCTS	9.3%	2,241
FUELS	8.5%	2,042
CHEMICALS	6.4%	1,548
TEXTILE, LEATHER, WOOD, PAPER AND RELATED PRODUCTS	6.3%	1,515
FOODSTUFFS	4.5%	1,077
TRANSPORTATION EQUIPMENT	3.6%	877
	TOTAL VOLUME	24,165

TAIWAN EXPORTS, 1986

COMMODITY	% OF IMPORTS	VOLUME*
OTHER TRANSACTIONS	28.4%	11,298
TEXTILE, LEATHER, WOOD, PAPER AND RELATED PRODUCTS	26.6%	10,603
ELECTRICAL MACHINERY	22.3%	8,891
METAL PRODUCTS	5.9%	2,360
FOODSTUFFS	4.9%	1,942
TRANSPORTATION EQUIPMENT	4.3%	1,690
MACHINERY TOOLS	4.0%	1,597
RAW MATERIALS (METALS)	1.8%	707
CHEMICALS	1.8%	701
	TOTAL VOLUME	39,789

* Volume in Millions of U.S. Dollars
Adopted from Taiwan Statistical Data Book, published by the Council for Economic Planning and Development, R.O.C., 1987.

TRANSPARENCY #4

KEY DOMESTIC INDICATORS FOR TAIWAN

In millions of U.S. dollars unless noted

	1985	1986	1987 (Projection)
Domestic Economy			
Population (mil. year-end)	19.26	19.46	19.65
Population Growth (%)	1.29	1.02	1.00
GNP in current dollars	60,171	73,246	97,200
Per Capita GNP, current dollars	3,144	3,784	4,991
Real GNP growth (local currency terms)	5.08	11.64	11.18
Consumer price % change	-0.16	0.70	0.22
Production and Employment			
Labor force (millions)	7.65	7.95	8.22
Unemployment rate (avg.)	2.91	2.66	2.05
Industrial Production, % change	1.37	14.93	12.80
Govt. oper. balance as % of GNP	-0.18	-0.10	-0.84
Balance of Payments			
Exports (f.o.b.)	30,723	39.789	52,100
Imports (c.i.f.)	20.102	24,165	32,940
Trade balance	10,621	15,624	19,160
Current account balance	9,195	16,217	17,285
Foreign direct investment	260	260	600
Foreign debt (year-end)	5,412	4,251	2,900
Debt-service paid	2,028	2,580	2,500
Debt service ratio as % of exports (goods and services)	6.1	6.0	4.5
Forex reserves	22,556	46,310	75,000
Average NT$/US$ exchange rate	39.86	37.85	31.73
Foreign Investment Approvals			
Total (cumulative)	5,160	5,930	7,400
U.S. (cumulative)	1,716	1,863	2,300
U.S. share (%)	33.26	31.42	31.08
U.S.-Taiwan Trade			
Exports to U.S. (f.o.b.)	14,773	18,995	23,100
Imports from U.S. (c.i.f.)	4,746	5,416	6,960
Trade balance	10,027	13,579	16,140
U.S. share of exports (%)	48.08	47.74	44.50
U.S. share of imports (%)	23.61	22.41	21.10

Principal U.S. exports (1986): Electronic/ Electrical Goods ($941); Chemicals ($906); Soybean ($381); Machinery ($368); Corn ($303) Food/wine/cigarettes ($295).

Principal U.S. Imports (1986): Electronic/Electrical Goods ($4,770); Textiles/Apparel ($2,604); Machinery ($2,219); Footwear ($2,158)

Source: Foreign Economic Trends and their Implications for the United States, Taiwan, March 1988, U.S. Dept. of Commerce.

SECTION II: THE PROS AND CONS OF FREE TRADE
Teacher Background Information

Who Benefits and Who is Hurt by Foreign Trade?

In SECTION I: INTERNATIONAL TRADE, we were shown why trade takes place using the principles of absolute and comparative advantage as guides. Specialization, according to SECTION I, results in more efficient use of resources. This is beneficial to both countries on a large scale since resources are now freed up and can move to other production areas. Specialization can result in a net gain to both of the countries. However, not everyone in the trading countries benefits equally from foreign trade. Some may even suffer economic losses. The following are examples of groups that may see gains and losses even under ideal conditions.

#1: Domestic consumers benefit due to the availability of products, the lower cost of products (if they are produced more efficiently in the exporting country or country of origin), the increased number of product varieties, and the better quality of products (if they are better made by the exporting country). Understanding what we would not have without international trade is easy in both financial and non-financial terms.

#2: Some producers and their workers benefit due to the availability of raw materials and components (which can be imported), the fact that trade provides markets for their exports, the fact that imports and exports create employment, and the fact that exports increase the income of all the suppliers of export industries and the industries themselves. In California, about one-sixth of all jobs are related to international trade. About 10 percent of the U.S. labor force makes its living in jobs connected with exporting.

#3: Import-competing firms and their workers lose. An import-competing firm is a domestic firm, which produces an identical or a substitute product that competes directly with imports. A good example of the losses felt by these firms is in textiles. American textile firms were once very competitive, but now the industry is declining largely as a result of foreign competition. The foreign product prices are cheaper than the domesitc prices. Obviously, as an industry declines, workers lose their jobs.

#4: Domestic consumers of export industries might also lose. An export industry is a firm whose main production is geared towards exporting products abroad. International trade, under ideal free conditions, can equalize the prices of products through competition. An example of how this can harm domestic consumers can be seen in the case of electric drills in the U.S. and Taiwan. Before trade between these two countries began on this item, the price of an American-made electric drill to an American consumer was very low, while the price of a Taiwan-made drill to a Taiwanese consumer was very high. With trade, the price of a drill in the U.S. rose, leading to general price equalization. Consumers obviously do not benefit from higher prices.

Arguments in Favor of Free Trade

The extent to which free trade should be restricted has been one of the greatest ongoing debates in economic history. (Free trade can be defined as

trade which occurs without controls placed on it by governments.) Those who advocate restrictions are called protectionists, while those who oppose trade barriers are called free traders. Protectionists generally do not favor trade protectionism for every product, while free traders generally do not favor completely free trade. In addition, few if any protectionists would advocate setting tariffs so high as to cut off all foreign trade, nor do free traders believe that all trade barriers should be lifted overnight. The arguments of both groups are theoretically-based and empirically-based.

Picture a spectrum with free trade on one end of the continuum and protectionism on the other. The trade policies of the U.S. and other nations shift back and forth along this continuum.

The following summarizes the major arguments of those advocating free trade:

Free trade encourages economic efficiency. Given free trade, each nation will engage in the types of production for which it is best suited, because it would not want to waste its limited resources on producing goods which can be produced more efficiently elsewhere. If free trade is in existence and all nations produce those goods in which they excel, the total amount of goods will be at its maximum and the standard of living everywhere will rise. In addition, if the most efficient producer is manufacturing a good, then the price will be the cheapest possible, because the production costs will be the lowest possible.

Free trade promotes good will among nations. This is true, because mutually profitable trade benefits all countries. The good will generated through economic means brings countries closer together than is possible through military or political agreements. Trade consolidates the ties of interdependence between nations, which leads to stability.

American industry has matured and no longer requires protection. Most industries are now able to compete openly against foreign products. By giving American industries tariff protection, we are forcing consumers to pay more for products, which foreign producers are willing to provide at lower prices. (Tarriffs will be described later in this section.) Thus, an industry is protected at the consumer's expense. With free trade, American businesses will be encouraged to produce goods and services that can compete with foreign products.

Arguments Against Free Trade

The following summarizes the major arguments of those advocating protectionism:

Protection is essential for national security. For purposes of national defense, the United States should become as self-sufficient as possible. During a war or international conflict, it would be dangerous to be dependent on other nations for necessary products. Therefore, we must have protection so that our economy may become diversified, producing a variety of goods.

Infant industries need protection. New industries frequently must train workers, accumulate capital, develop new equipment, and adapt to new

technologies. Foreign competition could be so strong that these infant industries would be economically ruined before they had a chance to achieve efficient production. Infant industry tariff protection will allow new firms to operate in hopes that they can improve their production processes.

Trade barriers promote the development of natural resources that otherwise would not be developed. Protection for certain industries increases their profits (because they can sell more goods with less foreign competition). With these higher profits, industries have greater incentives and capabilities to discover and develop natural resources. This is especially important if the natural resource is vital to our national defense, such as oil.

Foreign competition can have a negative effect on our high standard of living. Americans take pride in the high wages paid to U.S. workers and the quality of goods produced nationally. Our major foreign competitors pay comparatively lower wages, which may make their goods cheaper. Unless we protect our manufacturers, foreign producers may gain an undue advantage in the American market. If open trade is allowed, American manufacturers would be forced to cut costs in order to compete, by lowering wages, or they may be forced to go out of business. On the other hand, if everything we need were manufactured at home, more workers would be needed; higher employment would cause economic stimulation. (This is part of the so-called "Buy American" argument.)

Debate Over Trade Restrictions

Now that we have examined some classic arguments both pro and con free trade, let us turn to a very brief discussion of those arguments to highlight the major issues.

#1: Self-Interest Argument. Labor and management of firms threatened by foreign competition call for trade protection, because they believe that without it they may lose their jobs. Consumers conversely argue that with protection, the cost of products is higher. The promised benefit to the consumers of lower cost is spread among the whole population and does not appear to compensate for the loss of a job. With free trade, even attempts at retraining workers and adjusting or modernizing an industry involve sacrifices from workers and managers and subject firms to uncertainty about the future.

#2: Infant Industry Argument. When an industry is new, small and inexperienced, it calls for protection, because it may be unable to compete with well-developed foreign industry. Theoretically, when the infant industry can effectively compete with foreign industry, the infant industry tarriff can be removed; the tariff is no longer necessary. One of the problems with this argument is that it is all too easy to extend infant industry protection to firms that have little or no chance of ever developing or growing up. How do policy makers know when a certain industry is a good bet to be successful in foreign competition in the future? Then again, an infant industry may grow up but, due to the political clout it has developed, the tariff is somehow never removed. Most economists argue that the infant industry argument for protection is the only justified one, but its validity may be limited to underdeveloped countries; it generally has little applicability to the United States or other mature economies.

#3: National Defense Argument. Manufacturing industries, such as aircraft, firearms, electronics, and petroleum, and the shipping industry as well may argue that protectionism should be available to them, because if foreign competition were to force them out of business, our national defense capability would be diminished. One problem with this argument is that many industries want to be considered valuable to national defense. At various times, calls for protection on these grounds have been made by industries manufacturing candles, textiles, and even toothpicks. Some economists claim it is hard to imagine a modern war so severe that it halts international trade without that war being very serious and very short.

#4: The Cheap Labor Argument. This argument, the most common one presented for protectionism, holds that if American industries are protected from the unfair competition of products made by cheap foreign labor, higher domestic employment will result. Current evidence shows that many low-wage manufacturing countries are rapidly closing the wage gap with the United States. In addition, labor is not the only factor of production and thus not the only component of costs. For example, industries producing goods that are capital-intensive, technology-intensive, and the like will not fear the lower wages abroad. Besides, if labor is so much cheaper abroad, then how is it possible that we can export anything at all? Productivity and quality of labor are also important factors. Finally, trade is based upon comparative, not absolute, advantage. Low foreign wages do not necessarily create comparative advantages for low-wage countries.

Barriers to Free Trade

Protectionism is the general term used to describe government action designed to limit or eliminate imports competing with domestically-produced goods. There are many ways to restrict trade; the barriers to trade are divided into two groups: (1) barriers created through taxes, and (2) barriers not related to taxes (usually called non-tariff barriers).

(1) Barriers Created Through Taxes:

Tariffs

The barriers created through taxes principally include tariffs, which are taxes placed on imported goods. The U.S. Congress imposes tariffs or import duties on certain goods. Long ago, U.S. tariffs were used to generate tax revenue, but now tariffs are used to protect domestic firms and industries from foreign competition. Tariffs protect domestic industries, because consumers will buy less of the foreign import as it becomes more expensive due to the additional cost of the tax.

(2) Non-tariff Barriers:

Quotas

This group primarily includes quotas, which are quantitative restrictions on imports. Quotas can be specified by volume (say 1,000 carpets) or, less commonly, by value ($10,000 worth of carpets). Quotas are also an attempt to

protect domestic firms, by making foreign imports scarce, hence more expensive.

Government Buying Policies

Many governments in the world give total or partial preference to domestic producers when procuring products. A good example of preferential buying is the federal Buy American Act of 1933. This act presently requires the federal government to buy U.S. products rather than foreign imports whenever the U.S. price does not exceed that of the import by more than 6 percent, or 12 percent for areas of high unemployment, or 50 percent for goods purchased by the Department of Defense.

Domestic Subsidies

With this type of non-tariff barrier, the government provides a certain industry money or a subsidy in hopes that the industry will become more competitive. The shipping industry is an excellent example. The government subsidy covers repairs, maintenance, and the higher wage and insurance costs in the United States. This operation subsidy in the 1976 national budget was $403 million. Construction subsidies for shipping are common throughout the world.

Technical and Health Regulations

Worldwide, there are technical and health regulations imposed by governments. They exist on the importation of fruits, plants, and animals. The U.S. government has particularly strict precautions on hoof-and-mouth disease towards beef imports from Latin America. An outbreak of the disease in a remote part of Argentina was sufficient to cause a U.S. embargo on meat from all of Argentina. Manufacturing standards also exist throughout the world, such as those requiring the steering wheel of a car to be on the right or left side.

Embargoes

Export embargoes are prohibitions on the export of commodities, technology, or capital. They can be imposed for political reasons, such as the embargo on exports of U.S.-made and -licensed equipment to Russia for constructing the Siberian gas pipeline. Embargoes also can be imposed to block the outflow of important raw materials in an effort to keep the prices low for domestic producers.

Voluntary Trade Restraints

This type of restraint is an agreement (typically a bilateral one) specifying the maximum quantity of a certain product a country will voluntarily export to another country. This agreement usually is the result of negotiations between the importing and exporting countries' governments. (In this way, these agreements are not truly "voluntary.") An example of a voluntary trade restraint was Japan limiting the number of Japanese automobiles it exported to the U.S. in the early 1980's.

Others

Other non-tariff barriers include language, customs (for example, general distate for foreign products), and unwillingness on the part of companies which control the distribution system or advertising network to allow foreign companies access to a national market.

SECTION II: THE PROS AND CONS OF FREE TRADE
Teacher Lesson Plan

Objectives

- o articulate the benefits of trade
- o specify who benefits and who loses from international trade and how
- o gain a vocabulary of the barriers to trade
- o critically evaluate the arguments in favor of and against protectionism
- o gain multiple perspectives and recognize conflicting arguments when looking at the pros and cons of free trade
- o express their own opinions about certain trade barriers

Materials

- one copy per student of Handout #9, "Being Bullish on Buying American"
- one copy per student of Handout #10, Concepts of Arguments Pro and Con Free Trade and Barriers to Free Trade

Procedures

Review: Day 4 (5 minutes)

1. Collect student homework assignments from the previous class period (Handout #8). Ask students if they have any further questions about absolute advantage, comparative advantage, and specialization, or if they have any questions from the homework assignment.
2. Refresh their memories as to the reasons and advantages of trade already considered during the previous class periods.

Who Benefits and Who Loses in Foreign Trade (5 minutes)

1. Ask students who benefits and who loses (not just in the U.S., but throughout the world) in international trade. Write the students' responses on the blackboard. Provide students with the following group names — consumers, workers, merchants, factory owners — in this manner:

	Benefits	Losses
Consumers		
Workers		
Merchants		
Factory Owners		

Arguments Pro and Con Free Trade and Protectionism (20 minutes)

1. Indicate to students that you have just been discussing trade in the ideal case, which rarely occurs. Now you will look at the continuum of free trade and protectionism. First, define free trade and protectionism. (Free trade is international trade not restricted by governmental protectionist measures. Protectionism is governmental actions designed to limit or exclude imports competing with domestic production.) Explain that the debate between free traders and protectionists has continued throughout America's economic history. What reasons can students think of in favor of free trade and against government protection? List these on the blackboard. Students should present not only arguments with which they agree, but they should also attempt to generate all the arguments which exist on both sides. Supplement their list with the information found in **SECTION II Teacher Background Information.**

2. Now ask students to generate arguments against free trade and in favor of protectionism. Supplement this list with the information found in **SECTION II Teacher Background Information.**

3. Ask students what they think of the arguments listed on the blackboard both pro and con free trade. Using information in **SECTION II Teacher Background Information,** assist students in a brief analysis of some of the main arguments.

Barriers to Free Trade (10 minutes)

1. Ask students what barriers might be set up by the government to limit free trade. Supplement this list with the information found in **SECTION II Teacher Background Information.** Ask students who they think will gain and lose as a result of the government using these barriers.

Student Work: Day 4 (10 minutes) and Day 5 (15 minutes)

1. Divide the class into groups of 3-4 students. Ask students to read and discuss the questions in Handout #9, "Being Bullish on Buying American". They do not need to write down their answers. It may be necessary to explain what a "Buy America" act is. (See **SECTION II Teacher Background Information.**) This handout is designed to convince the students of the need for international trade and to have them begin thinking about some of the problems inherent in trade.

2. Ask the questions on Handout #9 in class to make sure students have understood the editorial. (Answers have not been provided because they are fairly obvious.)

3. At the end of Day 4, give students Handout #10 to do as homework. If you feel that the students have not comprehended some of the concepts in the arguments pro and con free trade and protectionism, you may wish to provide students with copies of **SECTION II Teacher Background Information.**

4. At the beginning of Day 5, ask students if they have any questions on the first portion (Definitions) of Handout #10. Be certain that students understand what a "quota" is. Discuss in class the second portion of Handout #10 (Study Questions). Ask students how they answered the questions. These questions are designed to provide a transition for the teacher and student from a theoretical analysis of free trade and protectionism to more practical discussion of the benefits and losses to individuals and groups as a result of free trade and protectionism. Be sure that students know that there are seveal right answers to these study questions.

"BEING BULLISH ON BUYING AMERICAN"

"There is only one way the country is going to get on its feet," said Baleful.

"How's that?" I asked as we drank coffee in his office at the Baleful Refrigerator Co.

"The consumer has to start buying American," he said, slamming his fist down on the desk. "Every time an American buys a foreign refrigerator, it costs one of my people his job. And every time one of my people is out of work, it means he and she can't buy refrigerators."

"It's a vicious circle," I said.

Baleful's secretary came in, "Mr. Thompson, the steel broker, is on the phone."

My friend grabbed the receiver, "Thompson, where the hell is that steel shipment from Japan that was supposed to be in last weekend?...I don't care about weather. We're almost out of steel, and I'll have to close down the refrigerator assembly line next week. If you can't deliver when you promise, I'll find myself another broker."

* * *

"You get your steel from Japan?" I asked Baleful.

"Even with shipping costs, their price is still lower than steel made in Europe. We used to get all our sheets from Belgium, but the Japanese are now giving them a run for their money."

The buzzer on the phone alerted Baleful. He listened for a few moments and then said, "Excuse me, I have a call from Taiwan...Buster, how are you coming with those door handles for the Mark Four? Look, R & D designed a new push-button door handle, and we're going to send the specs to you. Tell Mr. Chow, if his people send us a sample of one and he can make it for us at the same price as the old handle, we'll give his company the order."

A man came in with a plastic container and said, "Mr. Baleful, you said you wanted to see one of these before we ordered them. They are the containers for the ice maker in the refrigerator."

* * *

Baleful inspected it carefully and banged it on the floor a couple of times. "What's the price on it?"

"Hong Kong can deliver at $2 a tray, and Dong-Fu Plastics in South Korea said they can make it for $1.70."

"It's just a plastic tray. Take the South Korean bid. We'll let Hong Kong supply us with the shelves for the freezer. Any word on the motors?"

This editorial was written by Art Buchwald and appeared Tuesday, February 9, 1982 in the Los Angeles Times. It has been reprinted with permission from the author.

"There's a German company in Brazil that just came out with a new motor, and it's passed all our tests, so Johnson has ordered 50,000."

"Call Cleveland Motors and tell them we're sorry, but the price they quoted was just too high."

"Yes, sir," the man said and departed.

The secretary came in again and said, "Harry telephoned and wanted to let you to know the defrosters just arrived from Finland. They're unloading the box cars now."

"Good. Any word on the wooden crates from Singapore?"

"They're at the dock at Hoboken."

"Thank heaven. Cancel our order from Boise Cascade."

"What excuse should I give them?"

"Tell them we made a mistake in our inventory, and we're switching to plastic. I don't care what you tell them."

Baleful turned to me. "Where were we?"

"You were saying that if the consumer doesn't start buying American, this country is going to be in a lot of trouble."

"Right. It's not only his patriotic duty, but his livelihood that's at stake. I'm going to Washington next week to tell the Senate Commerce Commmittee if they don't get off the stick, there isn't going to be a domestic refrigerator left in this country. We're not going to stay in business for our health."

"Pour it on them," I urged him.

Baleful said, "Come out with me into the showroom."

I followed him. He went to his latest model and opened the door. "This is an American refrigerator made by the American worker for the American consumer. What do you have to say to that?"

"It's beautiful," I said. "It puts the foreign imports to shame."

Please answer the following questions on another piece of paper:

1. What does Baleful suggest is the only way for America to "get on its feet"?

2. What is the "vicious circle" the author is talking about regarding the buying and selling of refrigerators?

3. Do you agree with Baleful's statement that "This is an American refrigerator made by the American worker for the American consumer"? Why or why not?

4. How does this editorial relate to the concept of interdependence? Do you think it's difficult to buy only American products?

5. What do you think is Art Buchwald's point of view? (Be specific.) Do you think this editorial is meant to be serious or is it poking fun at someone? (If the editorial is poking fun, who might be the object?)

6. How do you think this editorial relates to the material you have studied in class the last few days?

The above questions were written for "The Global Product," The Japan Project, Stanford Program on International and Cross-Cultural Educaion, Stanford University, 1985.

CONCEPTS OF ARGUMENTS PRO AND CON FREE TRADE AND BARRIERS TO TRADE

Definitions: Briefly define these concepts:

1. tariff
2. non-tariff barriers (NTB)
3. protectionism
4. voluntary trade restraint
5. subsidy
6. quota
7. free trade

Questions: Please answer these study questions on another piece of paper:

1. We recognize that some people benefit and some people lose with free trade. Although the total benefits probaly exceed the total losses, if we wanted to make sure that the benefits were redistributed so everyone would gain, how could we do this?

2. Do you think that U.S. industries, which are suffering from import competition should be accorded protection? Should a quota be set for the number of shoes or television sets that may be imported from Taiwan each year? What would be the consequences of doing this?

3. In the 1800's, French economist Frederic Bastiat wrote a petition to the French Parliament on behalf of the manufacturers of candles, wax-lights, lamps, candlesticks, and of the producers of oil, tallow, and resin. In his petition, he satirized an extreme protectionist position by calling for the elimination of a foreign rival's intolerable, low-priced competition — the rival being the sun. The petition commended the Parliament for its rejection of economic theories and asked for a law eliminating access to natural light. Bastiat pointed out that if producers of iron, corn, and fabrics already received protection, why not candlemakers?

   Suppose the French parliament had adopted Bastiat's petition. What effect do you think this would have had on the manufacturers of candles, wax-lights, lamps, and candlesticks? Do you think that the government's regulations on sunlight would have been beneficial for the French economy?

Answers to Handout #10
Concepts of Arguments Pro and Con
Free Trade and Barriers to Trade

Definitions:

See Appendix D, Glossary of Key Terms.

Questions:

The emphasis here is not on the answers but rather to have students consider these important questions seriously. Possible answers for each question include:

1. Taxes
   Set up a new world socialist government
   Establish special governmental programs to help failing industries (such as the textile industry) move into more competitive areas

2. Effects of quotas: higher prices, limited supply, possible retaliation, industry protection

3. Manufacturers of candles, wax-lights, lamps, and candlesticks would certainly have been overjoyed because more French people would have had to purchase the manufacturers's products. There would of course be a possibility of retaliation by the French people upon the French parliament and manufacturers.

SECTION III: THE U.S.-TAIWAN TEXTILE TRADE CASE
Teacher Background Information

Using the material in SECTION I and SECTION II, we will now look at the specific case of U.S.-Taiwan trade in order to highlight certain key concepts and guarantee a full, critical evaluation of the issues involved.

Currently one of the biggest issues in U.S.-Taiwan trade is protectionism. Although protectionism exists on both sides, we often hear and read more about U.S. protectionism against some of Taiwan's products entering the U.S. In the last several years, U.S. quotas on Taiwan's textile, fiber and apparel imports have received wide publicity largely due to the fact that the textile-fiber-apparel industry plays a large role in the U.S. economy. What follows is some general information on the textile industry in both Taiwan and the United States.

Textiles: General Background

The fiber-textile-apparel complex plays a major role in the U.S. economy. The complex provides the U.S. with a major source of domestic employment; the industry is one of the largest employers of direct manufacturing labor. In 1983, the industry employed 1.9 million workers representing over 10 percent of the U.S. manufacturing work force. The industry has 30,000 plants providing economic activity and employment in every state. Many other industries and workers are dependent on the textile and apparel industry for their livelihood. The industry is the major customer of America's raw cotton and wool as well as America's man-made fibers and related products. It is also a large purchaser of machinery, chemicals, energy and transportation and other services. The U.S. is the world's largest textile and apparel market.

The market for textile and apparel products is fiercely competitive. Trade involves all of the developed and most of the developing countries. Competition in the industry is high due to the large number of producers and the high level of imports. In the last two decades, the U.S. textile and apparel industry has faced increasing competition in the domestic marketplace from products made in developing and newly-industrialized countries, which have cheaper labor and other factor costs. Over 14 percent by value and nearly 30 percent by volume of apparel consumed domestically is of foreign origin. In major product categories, import penetration is substantially higher. According to the Department of Commerce, in recognition of the unique importance of the fiber-textile-apparel complex to the nation, and the threat imposed by the inherent volatility of textile trade, U.S. laws call for an orderly control of imports of certain textiles and apparel. The U.S. textiles lobby, one of the most active and influential lobbies in Washington, D.C., has sought substantial changes in U.S. governmental policy, such as imposing aggregate import ceilings, rolling back imports and renegotiating bilateral agreements signed with the three major textile exporters ("The Big Three") -- Taiwan, Hong Kong and South Korea. The U.S.-Taiwan textile agreement, which covers 759 product categories, expires at the end of 1987.

For many developing countries, textile and apparel exports are a major source of employment and earning of foreign exchange. Like most

newly-industrialized countries, Taiwan is a major exporter of textiles. As the U.S. textile industry declines as a result of declining competitiveness in the international and domestic markets, the textile industry applies increasing pressure upon American government officials to increase protectionist measures. As a result, strict quotas are placed on Taiwan's textile imports into the U.S.

But even the Big Three's comparative advantage in the areas of textiles and apparel are weakening. For decades, textiles have functioned as the growth engine for industrialization among developing countries much as it was for England in the 17th and 18th centuries. In the textile industries of developing countries, capital investment is relatively small while returns on investment are relatively quick and foreign-exchange earnings potentially high. Textiles also provide unskilled or semi-skilled jobs for the rapid urbanization that accompanies any country's efforts to transform itself into an industrial society. The textile industry in the Big Three is facing serious difficulties partially because of the inevitable drift of the manufacturing facilities to lower-cost countries that can still profit from labor-intensive production. Specifically, less developed countries in Asia are now benefiting from the law of comparative advantage. The manufacturing facilities in the Big Three are attempting to combat this drift in comparative advantage by trying to move into different, higher-quality products.

Over the past decade, U.S. per capita consumption of textile and apparel products has declined. However, consumption of textiles and apparel in developing countries is likely to increase in the foreseeable future at higher levels than in the United States or other developed countries. Then, U.S. exporters could play an important role in the livelihood of the domestic industry. For Taiwan, whose industry has a strong synthetic basis, scaling up the market will be difficult.

Summary of Arguments: U.S. Quotas on Taiwan's Textile Products

We have already alluded to the possible conflict between the U.S. and textile-exporting nations, including Taiwan, on the textile issue. Within our U.S.-Taiwan case study, let's examine what specific arguments could be used to support pro and con views on U.S. quotas on Taiwan's textile products. (This section summarizes and supplements the information found in Handouts #11-16, which are the positions of various groups in the U.S. and Taiwan on the U.S. textile quota issue. Each pro and con group would not espouse all of the arguments listed in the pro and con sections below.)

In Favor of U.S. Textile Quotas

Political Arguments

#1: Taiwan's government places high tariffs on many potential U.S. exports. According to Taiwan's Board of Foreign Trade, 30 percent of all imports into Taiwan are under some form of import restriction. Taiwan's Central Bank estimates that the value of all the items that are subject to imports is almost one-third of Taiwan's total imports. Reductions in Taiwan's tariffs have been minimal. Tariffs on many common consumer goods and luxury goods are as high as 100%. Some imports liable for excessive tariffs are

machinery, word processors, home and kitchen articles, cosmetics and packaged foodstuffs. The same products that Taiwan restricts the free flow of into their market enter the U.S. market from Taiwan facing low tariffs or receiving duty-free treatment.

#2: The U.S. ran a $6.7 billion trade deficit with Taiwan in 1983. This means that the U.S. is selling $6.7 billion less products (in value) to Taiwan than Taiwan is selling to the U.S.

#3: According to the United States Trade Representatives office, Taiwan's protectionist measures against U.S. textile products are greater than the U.S.'s measures against Taiwan's textile exports.

#4: Not only are Taiwan's tariff's high, but the country also employs protectionist, non-tariff barriers against the importation of many goods and services. De facto import bans are a common practice. These bans are implemented through administrative orders or by denying import permits for a certain product. U.S. exports currently subject to bans or severe limitations include pharmaceuticals, soda ash and certain chemicals.

#5: The importation of Taiwanese textile products can put the American textile laborer out of work. Even though establishing a quota on Taiwan's textile products can raise the price of textile products in the U.S., unemployment is a more serious problem than inflation.

#6: Some members of the powerful U.S. textile lobby have argued that the U.S. textile industry needs protection as a result of fierce competition, while Taiwan's textile industry (as well as the textile industry in other countries) does not need protection or government assistance.

#7: Over the last three decades the U.S. has given large amounts of economic aid and military protection to Taiwan. This assistance enabled Taiwan to build up its economy to the level that it can now compete head-on with the U.S. in a number of product categories. It is only fair that Taiwan now give the U.S. an opportunity to catch up.

Economic Arguments

#1: As stated above, some argue that Taiwan's textile imports to the U.S. can force unemployment on the American textile worker. If American workers are unemployed, they may be a drain on society because taxpayers would inevitably have to pay for the workers' unemployment insurance. In addition, unemployed workers cannot buy other American-made products.

#2: The textile industry is a key one in the U.S. economy; it can add to the revitalization of the U.S. economy.

#3: The U.S. textile industry's principal argument is that it will be forced out of business if large volumes of textile imports are allowed into the U.S. from such countries as Taiwan, Hong Kong and South Korea. The industry argues that it is unable to effectively compete with these countries' imports, especially since the textile labor rate in these countries is below that paid for workers in the American industry.

#4: The American textile industry needs time to modernize. This time must be free of fiercely competitive foreign product imports.

Against U.S. Textile Quotas

Political Arguments

#1: Since Taiwan supports the U.S.'s political and economic policies throughout the world, the U.S. should be accommodating to Taiwan's requests to export all of its products to the United States.

#2: If the U.S. places more stringent quotas on Taiwan's textile products, the Taiwanese government could retaliate with protectionist measures of its own.

#3: Many economists aruge that as a world economic superpower, the U.S. should assist newly-industrialized countries, such as Taiwan, in fostering their industries and in assisting their economic growth.

#4: Despite past quota protection, the U.S. textile industry has modernized very little.

#5: The U.S. textile industry is not a key industry in the U.S.

Economic Arguments

#1: Since Taiwan's textile industry is also declining — it is following the pattern set by the American textile industry — Taiwan's textiles will soon become less competitive in the U.S. market.

#2: Many economists maintain that once a quota is established, the price of the commodity increases artificially; the demand is greater than the supply. Increasing prices lead to inflation.

#3: Consumers should have the freedom to choose what products they would like to buy and how much of a product. A quota will not allow this.

#4: The consumers will inevitably pay through higher textile costs to keep the textile industry alive. This is not fair.

#5: Competition is reduced through a quota system. This lack of competition will not benefit the consumer.

#6: Taiwan's lower labor rate does not really affect how its products sell in the U.S. There are other factors of production besides labor which go into pricing an item.

#7: Taiwan is gradually reducing its tariff rates, and the Taiwanese government says that it is attempting to reduce its trade deficit surplus with the U.S. However, many argue that the U.S. trade deficit should not be an important issue, because there are other reasons for the deficit (such as the strength of the American dollar) than the notion that a comparative advantage lies with Taiwan.

#8: Despite the original price gap between a given textile product from Taiwan and a given American textile product, prices paid by the consumer may be equal as a result of pricing decisions by the retailer.

#9: Taiwan will continue to be enormously reliant upon the U.S. market in the future. If the U.S. wants to attempt to insure the economic well-being of Taiwan (which is connected to its political well-being), then the U.S. should open its market to Taiwan's textile products.

SECTION III: THE U.S.-TAIWAN TEXTILE TRADE CASE
Teacher Lesson Plan

Objectives

Students will:

- o experience ambiguity and deduce that some large problems do not have clear-cut, absolutely right answers
- o experience the difficulty government leaders have in formulating a trade policy
- o cite some arguments for and against trade protectionism
- o articulate their own opinions on textile protectionism

Materials

- one copy per student of Handout #11, Letter from a U.S. consumer group
- one copy per student of Handout #12, Letter from a U.S. textile workers union
- one copy per student of Handout #13, Letter from a group of U.S. textile factory owners
- one copy per student of Handout #14, Letter from leaders in Taiwan's government
- one copy per student of Handout #15, Letter from a group of U.S. congressional representatives
- one copy per student of Handout #16, Letter from an association of U.S. retail store owners

Procedures

Review of Taiwan: Day 4 (5 minutes)

1. Review some important economic aspects of Taiwan. You may wish to re-show Transparencies #3 and #4 as well as restate the level and content of U.S.-Taiwan trade (which can be found in **SECTION I Teacher Background Information**). It is essential that students understand the importance of Taiwan as an American trading partner: Taiwan is the U.S.'s sixth largest partner. The United States is Taiwan's largest two-way trading partner.

Introduction to Textiles (5 minutes)

1. Introduce textiles by asking students to offer some examples of a textile. Possible answers include carpeting, drapery, bed sheets, towels,

tablecloths, and clothing. You should indicate that there is a difference between textiles and apparel, but for the purposes of the class and the role-play, it will be easier to include both textiles and apparel under the broad title of textiles. Provide a brief history of the textile industry and specifically the nature of U.S. protectionist policies working against Taiwan's textile and apparel exports to the U.S. This history can be found in **SECTION III Teacher Background Information.**

Preparation for the Role-Play (20-25 minutes)

1. Announce to students that during the next class period they will be involved in a role-play exercise or mock debate. They will be asked to represent certain groups appearing before a U.S. congressional committee which is about to vote on whether or not to extend the quota limitations on Taiwan's textile exports to the United States for another three years.

2. Tell students that before the role-play actually begins, you would like them to take a stand on trade protectionism. Take a poll, asking students if they would describe themselves as generally advocating free trade positions or protectionist positions. Record student response as it will be used for future comparison.

3. Write the names of the role-play groups on the blackboard. They are: a U.S. consumer group, a U.S. textile workers union, a group of U.S. textile factory owners, leaders in Taiwan's government, a group of U.S. congressional representatives, and an association of U.S. retail store owners.

4. Ask students how they think these groups would stand on the issue of extending the textile quotas. There may be conflicting student responses for the same group, but all these responses may still be accurate. For example, a particular group of U.S. congressional representatives may all reside in states with politically powerful textile unions and a textile industry which employs a large percentage of the population; this group may believe that quotas are acceptable. However, another group of congressional representatives may staunchly advocate free trade and therefore oppose the textile quotas. Consequently, you should only require students to generate brief, general answers. Write all the responses on the blackboard. You might encourage student responses by asking the following questions: How do these groups make their livings? What is the relationship between these groups and textiles? What is the relationship between these groups and textiles entering the United States from Taiwan? Are these groups pressured by political groups?

5. Tell students that the roles they will have to play during the next class period will be as members of the groups they have just discussed. However, they will be given position papers of these groups so that they will know exactly how these particular groups stand on the textile quota issue.

6. Divide the class into six groups, representing the positions of the six letters (see Handouts #11-16). Provide each student with all six handouts. Tell them that the letters and names are fictional, although the numerical data within the letters are accurate. Students should not

mistake the letters as ones really written by groups currently involved in the U.S.-Taiwan textile debate. However, the views presented in the student handouts are the likely views of the groups they are supposed to represent.

7. Ask students, while sitting in their groups, to read first the letter of the group they are representing. Ask students to discuss their group's position so that everyone in the group reaches a consensus on and understands their group's views. Ask students to decide what their group identifies as the problem and what solutions there are to that problem. Ask students if there are other arguments in favor of their positions, which do not appear in the letters provided. Remind students to consider information they have learned on protectionism in previous class periods. Ask students if they understand all the terms used in their group's handout.

8. Ask students to read the other five letters and discuss them in their groups. Students, while assuming their roles, should write down their responses to the other letters. Ask groups to take note if they agree or disagree with the other groups' positions. And ask them to consider why they agree or disagree. Make sure students understand all the terms used in the handouts.

9. Once students understand not only their own group's position but also the positions of the other groups, have them assign one member of their group to speak during the role-play on their own group's opinion. Then have the remaining group members assign themselves to speak on the other five groups' positions; that is, does their group agree or disagree with the other groups' positions? Why or why not?

10. Tell the students that as soon as class begins the following day, the role-play exercise will begin. Remind them of the task: to convince a U.S. congressional committee, which is about to vote on whether to extend the textile quotas to Taiwan's products, that their group's position is most valid. Tell them that the committee will be the teacher. Tell students that group representatives will be called upon first to speak for one minute on their group's views. Then the other group members will speak in turn for 30 seconds to one minute on their opinions of the other groups' views.

11. Assign students as homework continued preparation for the role-play. Stress to them the need to complete the readings and formulate their arguments before class the next day, since no more time will be given to prepare before the debate.

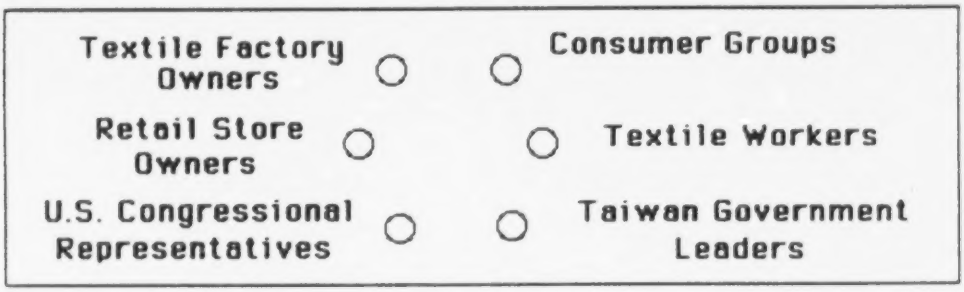
12. As an option, the teacher may prefer to call upon students randomly to speak on their own group's position or on their group's view of the other groups' opinions.

13. Another option is to have a judge (the teacher) or judges (a group of students) select the group that presented their positions most persuasively during the role-play. An award could be given.

Role-play: Day 6

1. Write on the blackboard: U.S. Congressional Hearing on the Case of U.S. Quotas on Taiwan's Textile Products.

2. Ask students to move their desks into their groups in a circle as illustrated:



In this way, the group seating arrangement will alternate pro and con.

3. Provide groups a few minutes to review their own positions and their views of the other groups' positions.

4. Remind students of the task: to debate whether or not textile quotas on Taiwan's products should be extended another three years.

5. Begin the discussion by asking each group representative to speak for one minute stating the basic argument of his or her group.

6. Encourage an atmosphere of debate by asking the assigned member of the other five groups to agree or disagree with the position taken by the consumer group. Require the speakers to provide reasons as to why they agree or disagree. They should speak for 30 seconds to one minute. Allow other group members to add to the assigned speakers' comments.

7. Then ask the other five groups in turn to agree or disagree with the positions taken by the textile workers, Taiwan's government, the U.S. congressional representatives, the store owners, and the factory owners. If you think that by allowing each group to speak on the other groups' positions, you will not have sufficient time (at least 10 minutes) for a debriefing/discussion, then cut the debate short by only having each group speak on the positions of the groups with which they disagree.

8. Formally end the debate by recognizing that the issue is a difficult one and by complimenting the students for having understood some of the more complex aspects of the issue. Stress to students that there is no single right answer in the debate between free trade and protectionism. With either free trade or protectionism, some groups will benefit while others will be harmed. It is important for students to understand all the key issues before reaching conclusions for themselves.

9. Encourage continued discussion with some personal observations and a summary of the more complex issues. Some points you may want to bring up are: the difficulty of proving harm to an industry from imports, the weighing of national interests against the interests of a specific industry, the difficulty in determining how much unemployment will result if the textile industry continues to decline, the consumers' demands for goods versus the textile workers' employment needs, the difficulty of understanding the positions of the textile factory owners or the textile workers unless someone has direct experience with these groups, the relative definitions of "good," political pressures on politicians, the desire to achieve "fairness" (that is, if their markets are not open to our products, then our markets should not be open to their products) versus the consumers' demands for products from all over the world, the possibility of retraining workers in declining industries, interdependence, the importance of trade to the U.S. economy, and the importance of Taiwan as a U.S. trade partner. Ask for student opinions on each of the points you raise.

10. Ask students in the consumer group, the Taiwan government leaders' group, and the store owners' group if they agreed with the anti-quota position they were asked to play. Why or why not?

11. Ask students in the textile workers group, the U.S. congressional group, and the textile factory owners group if they agreed with the pro-quota position they were asked to play. Why or why not?

12. Take a student survey again: Do students generally see themselves as protectionists or free traders? Has the overall response changed since the survey was taken the previous day? If so, ask students what has accounted for their changes in opinions?

13. Ask students what they think would be the implications on U.S.-Taiwan trade relations, if the U.S. Congress decided to to extend quotas on Taiwan's textile imports for three years. Could Taiwan retaliate? What effects — both long and short term — would this have on the United States and Americans? Would Congress's decision have implications for other countries?

14. Ask students what they think would be the implications on U.S.-Taiwan trade relations if the U.S. Congress decided not to extend the quotas on Taiwan's textile imports. What effects — both long and short term — would this have on Americans? Would this decision have implications for other countries?

15. If you have time, you may wish to discuss some of the following points: financial assistance to beleaguered companies, the desirability of quotas versus other trade barriers, how trade barriers become law, and the role of the U.S. Congress in formulating trade policy.

16. Ask students what they learned from the role-play about free trade and protectionism.

17. Optional student follow-up activities are listed in Appendix A.

Handout #11

HYPOTHETICAL LETTER FROM A U.S. CONSUMER GROUP

Congress is currently considering increasing protectionism against Taiwan's textile imports. They want to decrease the amount of textiles which will be allowed into this country from Taiwan. We believe that this kind of legislation would be harmful to American citizens. Protectionist trade policies will benefit a few but will harm many.

This country already has a high inflation rate. Consumers constantly face substantial increases in the prices of manufactured goods. Import quotas on textiles would certainly reduce competition in that industry and intensify inflationary pressure because prices would go up. If consumers want to buy low-cost textiles from Taiwan, why shouldn't they be able to? Why should they be forced to buy only the more expensive textiles made in the United States? Why should the consumer pay more just to keep the textile industry alive a little longer?

The textile industry has sought protection through quota limitations and received it for the last two decades. The industry has yet to completely modernize its plants. If they modernized, then they could compete with the lower-priced products from the "Big Three" importers — Taiwan, Hong Kong, and South Korea. We must ask ourselves if this is an industry which deserves protection. After all, the consumers end up paying for the protection in the long run. Furthermore, is the textile industry really a key industry in America?

Once we have committed ourselves to continuing the quota system for the textile industry, other industries will ask for government protection. How can we justify giving protection to one industry and not another? The economic problems of our trillion-dollar-plus national economy cannot be blamed on $1.36 billion in textile imports from Taiwan.

The textile industry has done a great disservice to the American public by receiving protection in the past, and we should not allow this to continue. Our consumer group calls for the gradual removal of all textile quotas faced by Taiwan (and other importing nations) over the next three years.

HYPOTHETICAL LETTER FROM A U.S. TEXTILE WORKERS UNION

The textile industry will soon be forced out of business if the American government continues to allow large volumes of textile imports into our country from such nations as Taiwan, Hong Kong, and South Korea. We cannot allow this to happen because the domestic textile industry is a key industry in insuring overall U.S. economic activity as well as providing a direct employment source to nearly two million Americans.

If the textile industry completely folds, all 1.9 million textile workers will be unemployed. This means that over 10 percent of the U.S. manufacturing work force will have to collect government unemployment insurance and benefits — which will cost the taxpayers a lot of money. It will be difficult for many of the potentially unemployed textile workers to find new jobs, since a large number of the six thousand textile mills are the principal employers in non-metropolitan areas. In addition, if we have no jobs, we won't be able to buy other U.S.-made products or support other industries and workers who are dependent upon the textile industry for their livelihoods; thus the viability and profit of other industries will be harmed.

One other important fact to remember about the industry we represent is that it employs a high percentage of women and other minorities. Women constitute 68 percent of the workers in the industry as a whole (compared to 32 percent for the entire manufacturing sector), and minority workers constitute 19 percent (compared to 12 percent for all manufacturing).

We believe that the jobs of the Americans who work in our industry are more important than the small (if any) increase in prices, which the consumer might face through lower (or more strict) quotas. The greater damage to our economy would come from rising unemployment, not inflation.

For the past several years, our industry has been declining under the pressure of cheap foreign imports. We have no fair chance to compete in the U.S. market against the textile products from Taiwan, because wages in that country are so much lower than ours. As more cheap imports are allowed into the United States, more textile workers lose their jobs. In 1983, the unemployment rate in the textile industry averaged 9.5 percent.

Therefore, we ask that the U.S. government regulate the flood of cheap textile imports coming from Taiwan in order to protect the U.S. textile industry. We specifically call for an extension of the quotas.

Handout #13

HYPOTHETICAL LETTER FROM A GROUP OF U.S. TEXTILE FACTORY OWNERS

Since the mid-1960s, many manufacturing industries in the United States have experienced heavy competition from imported goods. It is time the U.S. textile industry received adequate relief from the unregulated flood of imports. Otherwise, we will be put of out business.

One country causing the flood of imports is Taiwan. It should be noted that Taiwanese textile manufacturers do not compete fairly. Officials in the U.S. Department of Commerce indicate that the U.S. textile market is the most open in the world. When Taiwan utilizes trade barriers against U.S. textile products, why should Taiwan's textile products receive fair access in our domestic market? It does not make economic sense for the United States to be the only industrialized nation with an open-door trade policy.

If the textile products entering the United States were better designed, more attractive, more durable, or more efficiently produced, we would not object to the flood of imports. However, the great majority of the textile imports sell here primarily because they are cheaper; they are cheaper for only one reason — workers in Taiwan are paid wages that would be illegal and intolerable in this nation.

The basic issue is the survival of this industry, which has been referred to as a "gateway industry," because it provides good employment opportunities for people with diverse skills and talents. This industry has economic and social significance for this country's future. This trade problem transcends any geographic boundaries, partisan political concerns, or any particular product category. The problem fundamentally relates to whether the textile industry — which is a major source of U.S. employment and a major purchaser of supplies, agricultural products, and services which provide jobs in many other industries — will continue to exist.

Time is running out for our industry. We call for an extension of the quotas, which will lessen the assault upon our industry by low-wage imports.

Handout #14

HYPOTHETICAL LETTER FROM LEADERS IN TAIWAN'S GOVERNMENT

Although we understand that the quota system was established in the United States long ago in order to protect U.S. industries, we think that the U.S. government should consider the interests of American consumers before it decides to extend the quotas on Taiwan's textile exports to the United States.

Artificial interference by the government, including quotas, can only raise the prices of textile products and will not really protect the domestic textile industry. Through the implementation of quotas, U.S. consumer demand for textile products has surpassed the supply; this explains why the prices have been increasing over the past several years. But American consumers are generally not organized as a powerful lobbying group and therefore are unable to stand up for their rights to buy the cheapest products (which may come from Taiwan), if that is what they desire. The government, by establishing a quota, has limited consumers' choice and freedom.

American quotas on Taiwan's textile products have actually damaged the American textile industry. These quotas have led to limited growth in the U.S. industry and have made further investment unattractive. In addition, when quotas were first established on the importation of foreign textile products, the industry promised to modernize its plants so that it could more effectively compete with foreign manufacturers. But the American textile factories by and large have not modernized.

Many American textile workers and factory owners claim that our textile products are cheaper as a result of the low wages that are paid in Taiwan. But our textile factory wages have been climbing by at least 20 percent per year.

Taiwan is a newly-industrialized nation. We are in the process of shifting our economy from a reliance on labor-intensive production to the manufacture of more sophisticated technological equipment. An example of this process at work is our own textile industry. Taiwan's textile industry is declining; it is following the same path the American industry has taken. Thus, our textile impact on the U.S. market is diminishing.

We hope that the U.S. congressional committee will decide to gradually eliminate quotas on Taiwan's textile products over the next three years.

Handout #15

HYPOTHETICAL LETTER FROM A GROUP OF U.S. CONGRESSIONAL REPRESENTATIVES

The textile industry has been a vital one in the United States in the past, and it continues to be so today. In the congressional districts that we represent, the textile industry provides employment and a high level of economic activity. It is essential that we protect this industry.

In 1983, the United States ran a $6.7 billion trade deficit with Taiwan. This means the United States bought $6.7 million more worth of products from Taiwan than Taiwan bought from the United States. Taiwan's textile imports to the United States are a part of this trade deficit. Our markets are actually more open to Taiwan's textile products than Taiwan's market is open to textile products made in the United States. This is not only true for textiles but for many other products as well. This situation does not seem very fair.

Even if no textile products made in Taiwan were allowed on the U.S. market starting tomorrow, no consumer would really suffer. The U.S. textile industry can meet consumer demands for textiles.

The U.S. textile industry has been declining for the last few years. It has served our nation well and deserves temporary protection from the onslaught of cheap imports. The industry needs time to modernize; it needs time to make enough profit so that it can buy new, sophisticated equipment and machinery, which will allow the industry to be competitive on the world market in all product categories. This process of revitalization takes time, and we must give the industry the chance to prove its resiliency and abilities.

We specifically ask for the extension of the U.S. textile quotas in hope that we can protect this key American industry.

Handout #16

HYPOTHETICAL LETTER FROM AN ASSOCIATION OF U.S. RETAIL STORE OWNERS

Although we sympathize with the decline of the American textile industry, we are very attuned to consumer demands for foreign textile product imports.

Above all, we believe that consumers should have the right to select the products they want to buy — in whatever quantities they wish. This consumer right is being denied by the textile industry when it requests and receives protection against foreign imports. The consumers want to buy cheap textile products from Taiwan, but the American government and the American textile industry will not allow them. The consumer's choice is being restricted to more expensive goods.

Protectionist trade policies will benefit a few, but they will harm many. Quotas intensify inflationary pressure, and they also limit the drive to technologically improve the textile factory. In addition, the prices of domestically produced goods would rise, because the American producer would no longer fear losing to foreign competitors who sell their goods more cheaply. Similarly, the lessening of foreign competition would lead American producers to become less efficient (and thus prices would increase).

Our retail business is harmed and will continue to be harmed by U.S. textile quotas. Our customers want to buy the low-priced products from Taiwan, which are not always available in our stores. We are losing business as a result of the quotas.

We do not really understand why the U.S. textile industry is complaining. U.S. consumers form the largest market in the world and spend the most per capita. And in response to the cheap labor argument, let us note that the highest percentage of the U.S. textile production is concentrated on mass-produced staple fabrics for which the unit of labor content is near to being the lowest in the world. Serious injury to these textile firms cannot be demonstrated by showing that profits or wages in this industry are lower than those in other U.S. industries.

Therefore, we oppose the extension of U.S. quotas on Taiwan's textile products and ask for their immediate removal.

APPENDIX A
Optional Follow-Up Activities

SECTION I: INTERNATIONAL TRADE

Part I: Living In A Global Age

1. Ask the students to review their experiences in the simulation and the information generated in the discussion period. Then ask them to make generalizations about the following topics, which may have been discussed:

   a. The relationship between behavior and feelings.
   b. The attitudes and experience, which affect one group's perception of another.
   c. The effects which interdependence has on nations today.
   d. The kinds of behavior, which helps to develop trust between people.
   e. The need for trade in today's interdependent world.

   They should be able to defend the generalizations by citing events in the simulation.

2. Many topics, such as underdeveloped countries, oil-rich nations, technology, multi-national corporations, the United Nations and the uneven distribution of resources may have come up during the discussion. Ask students to prepare a research paper on one or more of the topics which interest them.

3. Write a one-page paper on the similarities and differences between the simulation and the real world.

Part II: Why International Trade?

1. Research the major exports of both Taiwan and the United States to determine if specialization exists and what form it takes.

2. Write a two-page paper on the impact of foreign trade on a local manufacturing firm in your community. Investigate whether the local business: exports all or parts of its products, uses imported raw materials or competes directly with international firms.

3. Research how the United States pays for its imports. Consider the following important factors: foreign exchange market, exchange rates and balance of payments.

SECTION II: PROS AND CONS OF FREE TRADE

1. Ask students to research two or three kinds of trade barriers. They should be able to provide one or more real-world examples of each kind of barrier they research. For this project, they might search economic periodicals (such as the Far Eastern Economic Review) or major newspapers (such as The New York Times or The Wall Street Journal). It might be easier for students to focus upon trade relations with a particular country, like Taiwan, in identifying certain examples of barriers.

2. Ask students to look for newspaper or magazine articles for an example of a particular trade barrier. Students should write a short paper on how the barrier actually became law. Have them look particularly for interest group and domestic industry pressures. Also have them include how the effected nation(s) retaliated, if at all, when the barrier became law.

3. Ask students to research the arguments espoused in 1930, when the Smoot-Hawley Tariff Act was being considered by the U.S. Congress.

4. Write a short paper on the General Agreement on Tariffs and Trade (GATT).

5. Write a short paper on the Generalized System of Preferences (GSP), which is a very complex system of trade preferences and barriers used by the United States.

SECTION III: THE U.S.-TAIWAN TEXTILE TRADE CASE

1. Research and write a short paper on the Arrangement Regarding International Trade in Textiles, known as the Multi-Fiber Agreement (MFA).

2. Write a 3-5 page paper on the history of the U.S. textile industry.

3. Research and write a short paper on the conflict between the U.S. and Japanese textile producers in the 1970s and the U.S. and Taiwanese textile producers in the 1980s.

4. Ask students to write letters to their congressional representatives, expressing their stand on the U.S.-Taiwan textile quota issue, based upon information brought out in the role-play.

5. Write a short paper, expressing your own opinions about trade protectionism in general.

6. Research and write a short paper on the 1983-84 trade-related conflict over the United States' Generalized System of Preferences (GSP) between the United States and major textile-exporting countries, including Taiwan.

7. Research and write a short paper on what you believe the U.S. textiles lobby's effect has been on U.S. textile trade policy in recent years.

8. Ask students to write a short paper on what they believe to be the strongest arguments in favor of and against U.S. textile quotas on products from Taiwan.

APPENDIX B
U.S. Textile and Apparel Industry Economic Situation

Economic Recovery

The recovery in national economic activity in 1983 was shared by the U.S. textile and apparel industry.

Personal Consumption Expenditures

Personal consumption expenditures for clothing and apparel retail sales are up.

Imports

Imports continue to gain a larger relative share of the domestic market. Imports' share of U.S. domestic consumption reached about 17 percent in 1983 for the textile and apparel industry as a whole and about 30 percent for the apparel sector alone. During the first ten months of 1983, imports increased 23 percent overall, with textiles up by 34 percent and apparel up by 15 percent. The Department of Commerce maintains that the 1983 increase in import penetration was due to the recovery of the U.S. market, the strong U.S. dollar and foreign exporter diversification out of products covered by quotas into new products not currently restricted by quotas.

Exports

U.S. exports are falling. In 1983, exports were 18 percent (by value) below last year's level. The Department of Commerce blames the decrease in exports on the strong U.S. dollar and the lag in recovery of foreign economies.

Trade Balances

In 1983, the trade deficit reached U.S. $123 million for textiles and $6.6 billion for apparel.

Unemployment/Employment

Unemployment remains at high levels. Textile industry sector unemployment averaged 9.5 percent in 1983, while apparel industry sector unemployment averaged 12.4 percent. (Unemployment averaged 9.6 percent for total U.S. labor in 1983.) The fiber-textile-apparel complex provides one out of every nine U.S. jobs in manufacturing and is the largest manufacturing employer of women and minorities.

Growth

As the industry makes its way out of the worst recession since World War II, companies are faced with a market that is expanding at no more than 5 percent. Capital expenditures within the industry remain flat.

Market Size

The United States is the world's largest consumer of textile products. The annual per capita consumption is 52 pounds.

Competitors

The "Big Three" — Taiwan, Hong Kong and South Korea — are the U.S.'s largest textile and apparel competitors. They replaced Japan as the largest supplier of low-cost textiles and apparel to the world. In 1980, they collectively accounted for 46 percent of the U.S.'s textile and apparel imports.

During 1976-80, 12 emerging textile-exporting countries increased their share of the U.S. market from 18.7 to 23.0 percent. This is significant, because it represents a slightly faster growth rate than that experienced by the "Big Three" during the same period. (The "Big Three's" share of the U.S. market went from 43 to 46 percent.) The twelve countries are: China, India, Macao, Pakistan, the Philippines, Sri Lanka, Thailand, Brazil, Colombia, Mexico, Malaysia and Singapore.

APPENDIX C

Taiwan Textile and Apparel Industry Economic Situation

Taiwan's textile and apparel industry is also on the decline; it is following much the same path as its American counterpart.

Taiwan is already starting to feel the heat from China and other developing countries in labor-intensive industries, such as textiles and apparel.

Taiwan's textile industry is experiencing a slow-down in growth, soaring labor costs, increasingly strict textile quotas from its trading partners and increased competition. The competition is increasing in the mass-production sector of the market — virtually the only sector in which Taiwan has been competitive on a world level. In light of increased protectionism from abroad and increased competition, textile and apparel factories are attempting to avoid exporting huge volumes of low-profit items and are trying to move up-market or into areas of higher quality, design and fashion, adding value to their product.

Some American trade watchers are relieved to see that exports of electronics and electrical products, which in 1983 reached U.S. $4.85 billion, surpassed exports of textiles and apparel for the first time in Taiwan's history.

APPENDIX D
Glossary of Key Terms

Absolute advantage: an economic concept justifying trade based upon a condition in which one producer can produce a product more efficiently than another producer; trade is beneficial when producers each produce the product in which they have an absolute advantage.

Comparative advantage: an economic concept justifying trade based upon a situation in which a nation specializes in producing and exporting those products in which it has a relative price advantage; the condition in which one prpoducer can produce more than one product more efficiently than another producer, but the ratio of relative advantage is greater only in one of the products.

Exports: goods which domestic agents sell to other countries.

Free Trade: exchange of goods and services which occurs without controls placed on it by governments.

Goods: products which are bought and sold.

Imports: goods which enter the domestic market as they are purchased from another country.

Interdependence: the relationship between nations which depend on each other to meet their needs.

International trade: the exchange of goods and services between nations.

Non-tariff barriers: a trade restriction, which is not related to taxes; includes quotas, government buying policies, domestic subsidies, and voluntary trade restraints.

Protectionism: general term used to describe government action designed to limit or eliminate imports, which compete with domestically produced goods.

Quota: a quantitative restriction on imports or exports.

Specialization: an international trade concept applying to the situation in which a nation produces the goods in which it has a comparative advantage as a result of resource endowments.

Subsidy: money the government provides to an industry in hope that the industry will become more competitive.

Tariff: a tax placed on imported goods by the government of the nation receiving the goods.

Voluntary trade restraint: typically a bilateral agreement, stating the quantity of a certain product a country will be limited to in its exports to the other country.

APPENDIX E
References And Information Sources

Economics

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ECONOMICS: PRINCIPLES AND PRACTICES, Gary E. Clayton and James E. Brown, Charles E. Merrill Publishing Co., Columbus, Ohio, 1983, especially chapter 18. This is a high school text.

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Taiwan

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ASIA 1985 YEARBOOK, South China Morning Post Limited, Hong Kong, 1985. This yearbook is distibuted yearly by the Far Eastern Economic Review and contains an excellent summary of all Asian countries's political, economic, and military activities.

AMERICAN INSTITUTE IN TAIWAN, 1700 North Moore Street, 17th Floor, Arlington, VA 22209, (703) 525-8474. This is a U.S. government institute concerned with U.S.-Taiwan relations.

COORDINATION COUNCIL FOR NORTH AMERICAN AFFAIRS, 4301 Connecticut Avenue, NW, Suite 420, Washington, D.C. 20008, (202) 686-6400. This is the Taiwan government's council concerned with U.S.-Taiwan relations. They also have offices in other U.S. cities, including San Francisco and Los Angeles.